



# Natural Gas Working Group Meeting September 2, 2010

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# The Road to Gas Accord V

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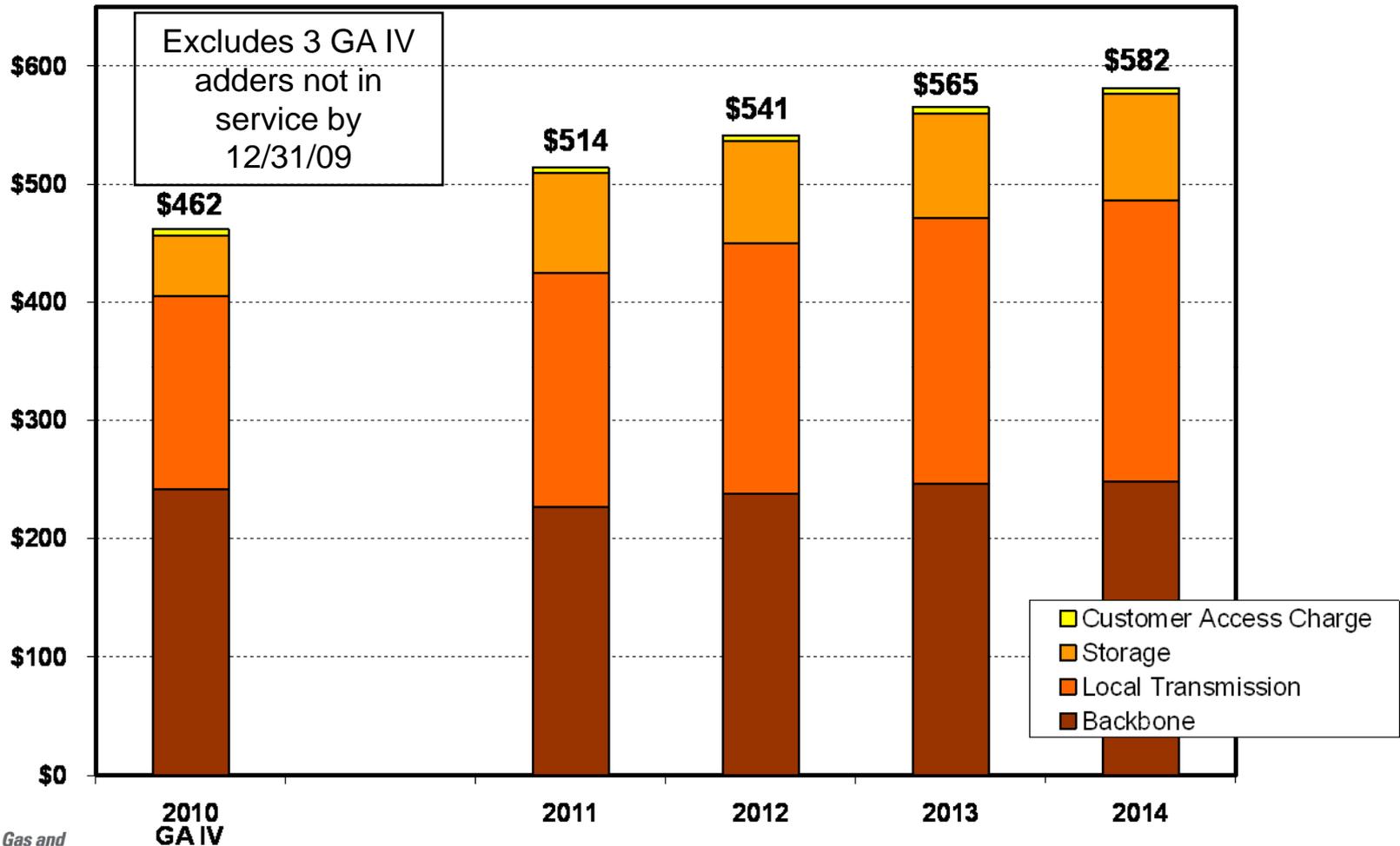
- Filed rate case Sept 2009
- Reached Settlement in Principle July 2010
- Filed Settlement Aug 2010
  
- Settlement goes into effect Jan 2011 Requested

# Key Features of Gas Accord V

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- Uncontested settlement except for Sempra (limited issues)
- 4-year term (2011-14)
- New revenue requirements, throughputs, and rates
- Rates
  - Backbone rates relatively flat
  - LT rates up
  - Market Storage cost allocation up
- Several new cost trackers
- Sharing mechanism for revenue over-/under-collections

# Revenue Requirement (\$ million)



# Revenue Requirement

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- **Drivers of Increase**

- Backbone flat; local transmission and storage increase
- Capital expenditures – particularly local transmission and storage
- O&M expense – particularly local transmission

- **Cost Trackers**

- Electricity cost balancing account
- Integrity management expense balancing account
- Costs determined in other cases: A&G, pension, cost of capital
  
- Catastrophic Event Memorandum Account (CEMA)
- Hazardous Substance Mechanism (HSM)
- Z-Factor Mechanism

} **New**

# Sharing of Revenue Over- and Under-Collections

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- **Sharing Percentages** (customer/shareholder)
  - Backbone: 50/50
  - Local transmission: 75/25
  - Storage: 75/25 upside; PG&E at risk for downside
- **“Seed” Amount**
  - \$30 million/year credit to backbone and local transmission rates
- **True-Up**
  - Annual true-up of customer portion of shared revenues and seed amount

# Backbone Rates

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- Change from 4 to 5 primary rates:

## OLD

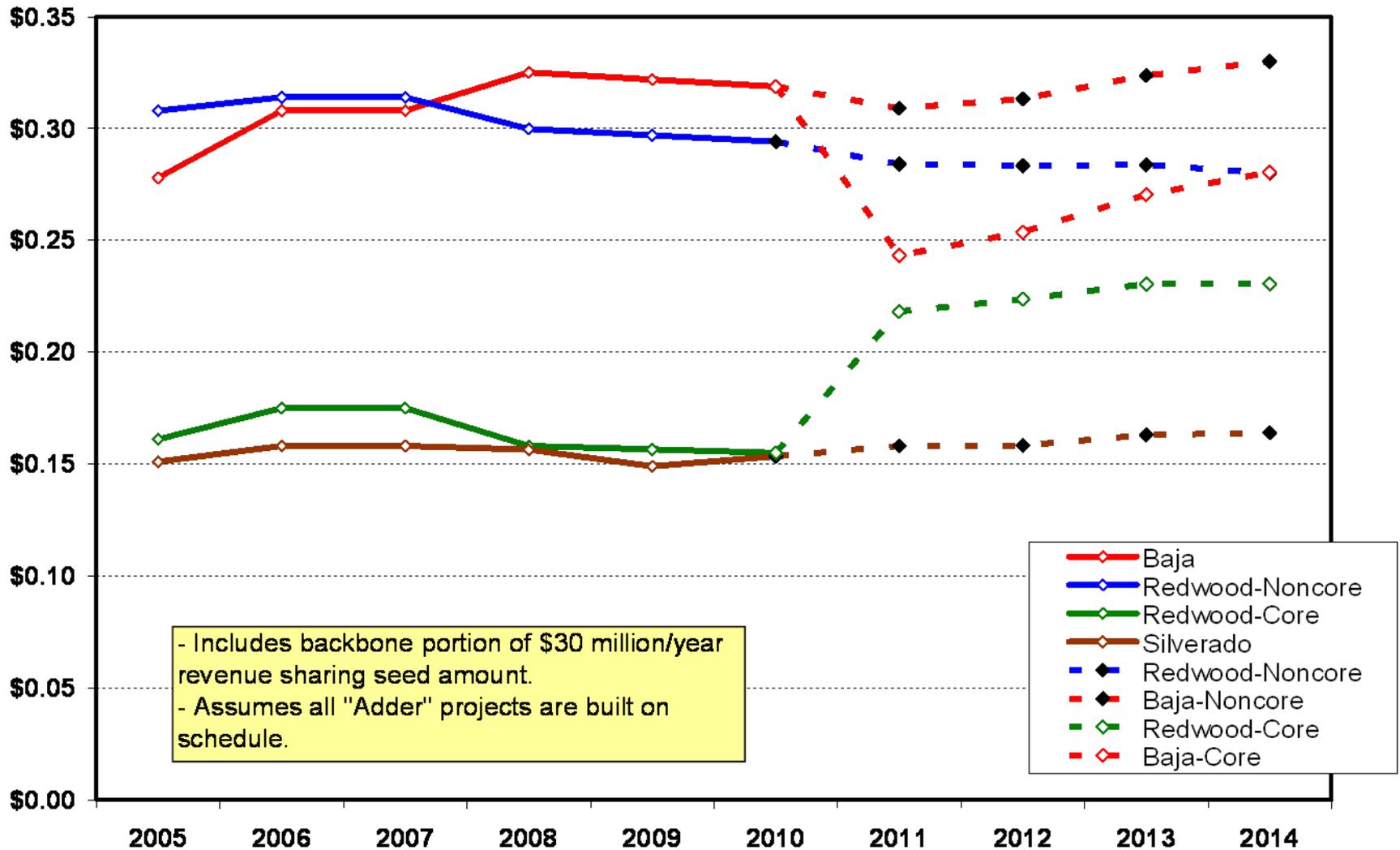
Core Redwood  
Noncore Redwood  
*Baja*  
  
Silverado

## NEW

Core Redwood  
Noncore Redwood  
*Core Baja*  
*Noncore Baja*  
  
Silverado

- 4 backbone “Adder” projects
  - Delevan K-3 or Gerber K-1 SCR (~\$8 Mil capital) , Topock K-Units Phase 1, Topock K-Units Phase 2, Topock P-Units (3 Topock projects capped at total of \$100 Mil capital)
- Negotiated Baja-Redwood rate differentials:
  - \$0.025, \$0.030, \$0.040, \$0.050/Dth in 2011, 12, 13 and 14 (if all adders built on schedule)
  - Apply to Core and Noncore

# Backbone Rates (\$/Dth, G-AFT)

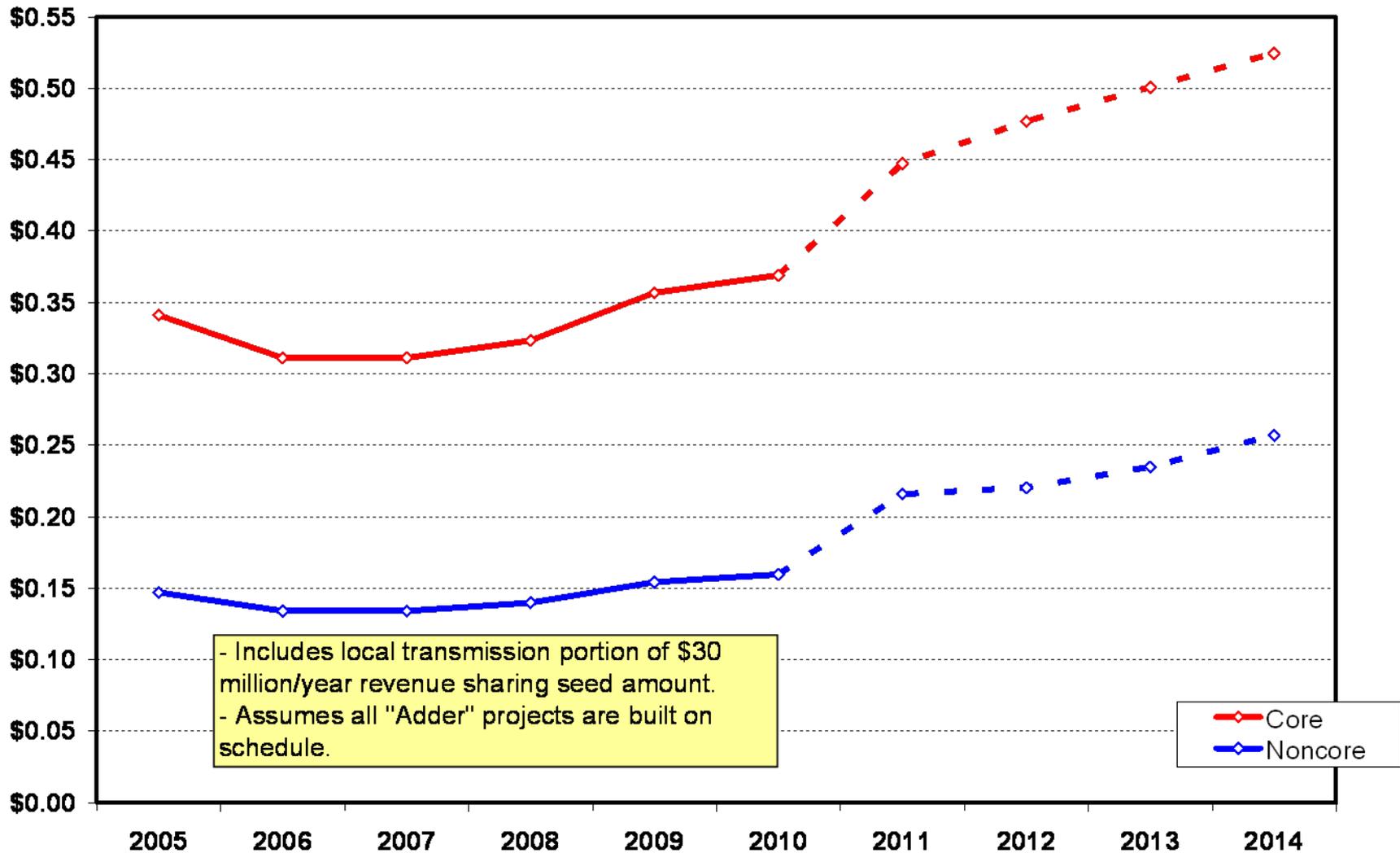


# Local Transmission Rates

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- Same cost allocation and rate design methodology
- 4 local transmission “Adder” projects (\$166 million capital)
  - Line 304 DG Power Stockton Extension, Line 406, Line 407 Phase 1, Line 407, Phase 2
- Bill credits to 5 customers
  - Dynegy (Moss Landing) and 4 Nor Cal Gen Coalition members
  - \$2.8 million/year
  - Funded primarily by other customers

# Local Transmission Rates (\$/Dth)

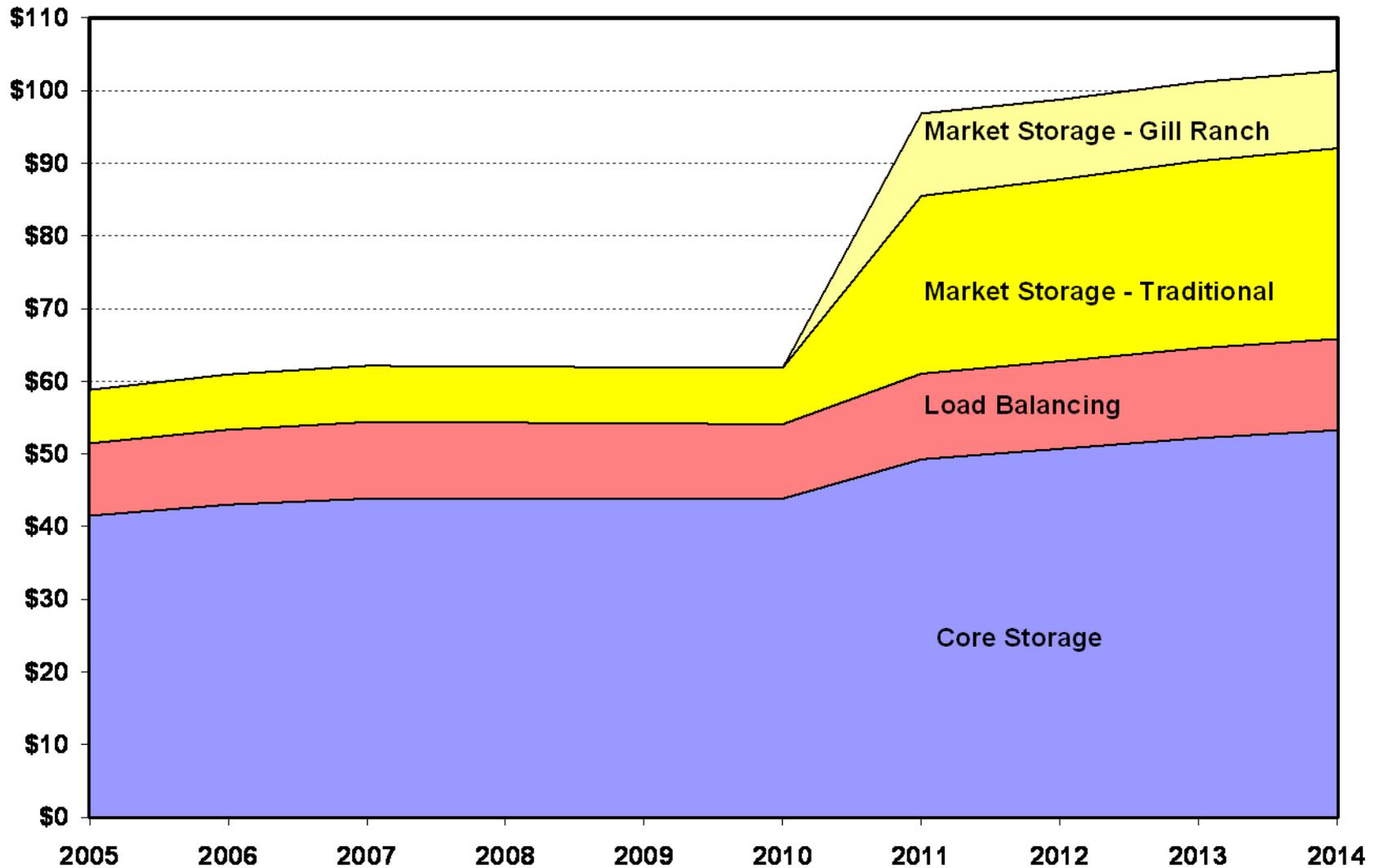


# Storage Cost Allocation

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- Cost allocation more relevant than rates
- Same cost allocation methodology
  - Updated for new storage costs and capacities (last update was GA III)
  - Gill Ranch included
- Increase in costs
  - Core storage, 12%
  - Load balancing, 12%
  - Market storage (including Gill Ranch), 359%

# Storage Cost Allocation (\$ million)



# Gas Accord V Conclusions

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- Provides for a continuation for 4 yrs of a predictable market structure supported by PG&E and its customers.
- Rates:
  - Backbone rates relatively flat
  - LT rates up
  - Market Storage cost allocation up
- Major change: introduction of revenue sharing providing potential benefits for shippers.
- Somewhat less rate certainty due to importing results of other proceedings (e.g., cost of capital) as well as more adders addressing uncertain projects.

# FERC Orders 720 and 720-A Pipeline Posting Requirements

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- Update to information provided at June 3, 2010 NGWG mtg.
- Requires “major non-interstate pipelines”, such as PG&E, to publicly post **daily scheduled volumes** at physical and virtual receipt and delivery points equal to or greater than 15,000 MMBtu.
- Postings required by **October 1, 2010**.

# FERC Orders 720 and 720-A

## Pipeline Posting Requirements (cont)

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- Key Issue: Customer Confidentiality
  - Requires posting of a **Location Name** for each receipt and delivery point (including end user delivery points).
  - FERC clarified in a July 21, 2010 order that pipelines may use a city or county for a Location Name. PG&E plans to use “County”.
  - On August 2, 2010, the CPUC approved PG&E’s request to alter Gas Rule 9M to state PG&E can release confidential information when required by federal or state law, regulation, or court order.

# Backbone Capacity Adequacy – 2010 analysis

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- PG&E's July 1, 2010 compliance filing resulting from Phase II of 2004 Gas OIR (D. 06-09-039, ordering paragraph 3)
  - “The Pacific Gas and Electric Company and the Southern California Gas Company shall demonstrate in biennial advice letter filings to the Commission’s Energy Division starting in 2008 that they hold adequate backbone transmission capacity and have slack capacity consistent with their proposals herein.”
- The backbone transmission capacity guideline requires the utilities to assure adequate backbone transmission capacity under 1-in-10 cold and dry conditions
  - PG&E proposed a capacity utilization measure with capacity adequacy defined if utilization is less than 80-90% in a 1-in-10 cold and dry year
  - An expansion may be warranted if utilization exceeds 80-90%
- Data sources:
  - Gas demand: same methodology as used in the 2010 California Gas Report
  - Backbone capacities: as stated in PG&E’s 2011 GT&S Rate Case

# Backbone Capacity Adequacy Conclusions

- Conclusion: PG&E has adequate backbone capacity to accommodate forecast demand on a system-wide basis.

Line No.	Year	Average Demand (MMcf/d)	1-in-10 Cold and Dry Year Demand (MMcf/d)	Backbone Receipt Capacity (MMcf/d)	Capacity Utilization Cold and Dry Year Demand
1	2011	2,192	2,349	3,223	73%
2	2012	2,191	2,350	3,223	73%
3	2013	2,236	2,413	3,223	75%
4	2014	2,261	2,454	3,223	76%
5	2015	2,241	2,452	3,223	76%
6	2016	2,250	2,470	3,223	77%
7	2017	2,268	2,500	3,223	78%
8	2018	2,284	2,517	3,223	78%
9	2019	2,236	2,562	3,223	79%
10	2020	2,346	2,559	3,223	79%

- Expansions can provide benefits to customers even when overall backbone capacity is adequate. Examples might include:
  - Customers have an interest in accessing new gas supplies
  - As more storage is developed, customers may increase use of backbone in summer for storage injections