COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Public Works

Date: April 16, 2013
Board Meeting Date: May 21, 2013
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: James C. Porter, Director of Public Works

Subject: Natural Gas Pipeline Capacity Costs

RECOMMENDATION:
Adopt a Resolution authorizing the President of the Board's signature on a letter to the California Public Utilities Commission urging them to rescind regulations requiring core transportation agents to pay for PG&E's excess pipeline capacity.

BACKGROUND:
The County purchases its natural gas through ABAG Power to ensure leveled billing for a commodity whose cost can fluctuate dramatically throughout the year as well as year to year. The County's current agreement with ABAG requires that we purchase natural gas from them for at least an additional three years following notice to them of our intent to terminate the agreement. Recent California Public Utilities Commission (CPUC) action may result in substantial increases in cost to the County for natural gas.

DISCUSSION:
The County, along with 37 other public agencies, has been meeting our natural gas needs through the ABAG POWER joint powers agency. The ABAG POWER pooled purchasing and billing strategy strives for low cost and stable pricing that differentiates it from PG&E's more short term, market-rate approach. In turn, this allows the County to predictably budget costs for core operations, community services and enterprise activities. This is particularly important when the County receives funding on a fixed schedule.

The ABAG POWER program is now threatened by a series of proceedings scheduled to come before the CPUC. PG&E (which supplies natural gas to customers not in a pooling arrangement like ABAG POWER) engages in a purchasing strategy that includes contracting for the right to use designated segments of pipes ('pipeline capacity') to move natural gas from a producer into the region's natural gas distribution system. Under the current system, PG&E determines the location and the amount of pipeline capacity acquired under these contracts, subject to CPUC oversight.

Beginning early last year, CPUC regulations were put into place that require ABAG POWER to take and pay for a portion of PG&E's pipeline capacity. This is a significant burden on the ABAG POWER program and the County for the following reasons:

- Our purchasing strategy does not generally include the tactic of contracting for pipeline capacity separate from the purchase of natural gas.
- Even if we changed our gas purchasing strategy to include this tactic, absent the recent regulations we would not choose to match the locations and the amounts that we will be required to take from PG&E.
- We cannot recover our costs by reselling this pipeline capacity.

We are concerned that the cost of taking PG&E's pipeline capacity may render the ABAG POWER program economically unviable in the near future.

PG&E claims that this pipeline capacity serves as a hedge against possible future shortages that would prevent it from moving natural gas into the region. There is no evidence of a shortage of pipeline capacity. In fact, there is significant excess capacity. More importantly, if there were signs of a possible future shortage, ABAG POWER would seek to acquire pipeline capacity that matches its natural gas purchasing strategy – not PG&E's.

The CPUC will be taking up this issue in June 2013. Staff requests that the Board authorize the President to sign and send the attached letter to the CPUC stating the County's objections to forcing ABAG POWER to take and pay for pipeline capacity acquired by PG&E.

County Counsel has reviewed and approved the Resolution as to form.

Approval of a letter urging the California Public Utilities Commission to rescind regulations requiring ABAG to purchase PG&E's excess pipeline capacity contributes to the Shared Vision 2025 outcome of an Environmentally Conscious Community by ensuring that ABAG can continue to operate as a Core Transportation Agent providing stable energy prices to the County.

<u>FISCAL IMPACT</u>:
There is no impact to the General Fund. However, approval of the recommendation may result in avoidance of cost in the future.

Attachment A: Proposed Draft Letter

Attachment A

May 21, 2013

President Michael R. Peevey and Commissioners
Public Utilities Commission of the State of California
505 Van Ness Avenue
San Francisco, CA 94102

Dear President Peevey and Commissioners:

The County is a member of ABAG POWER, a joint exercise of power agency that has served as a core transport agent for 38 public entities since 1996. The County has a constituency of over 800,000 California residents. We provide essential services to our citizenry that include public housing, hospitals, police services, fire protection, community services for youth and the elderly, sanitation and flood control, public works, and parks. We rely on a cost effective and stable supply of natural gas in providing such services.

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- Our purchasing strategy does not generally include the tactic of contracting for pipeline capacity separate from the purchase of natural gas.
- Even if we changed our gas purchasing strategy to include this tactic, absent the recent regulations we would not choose to match the locations and the amounts that we will be required to take from PG&E.
- We cannot recover our costs by reselling this pipeline capacity.

PG&E claims that this pipeline capacity serves as a hedge against possible future shortages that would prevent it from moving natural gas into the region. There is no evidence of a shortage of pipeline capacity; in fact, there is significant excess capacity. More importantly, if there were signs of a possible future shortage, ABAG POWER would seek to acquire pipeline capacity that matches its natural gas purchasing strategy – not PG&E's.

The County requests that the CPUC establish regulations to permit ABAG POWER, as a core transportation agent, to opt out of pipeline or storage capacity commitments going forward, before such commitments are made or renewed by PG&E. In that way, ABAG POWER will be able to control its own supply options and no costs will be shifted onto other customers.

If you have any questions about our request, please contact Mr. Doug Koenig, County of San Mateo, at dkoenig@smcgov.org, (650) 363-4094 or Mr. Jerry Lahr, ABAG, at JerryL@abag.ca.gov, (510) 464-7908).

Thank you for your consideration.

Sincerely,

Don Horsley
President