

Section 2 Project Purpose and Need

2.1 PROJECT OBJECTIVES

The Gill Ranch Gas Storage Project has the following objectives:

- Provide highly-flexible economic natural gas storage services to a variety of customers, which could include gas utilities, electric utilities, independent electric generators, gas marketers, gas producers, industrial gas users, and other wholesale and retail gas customers.
- Provide storage services using reservoirs with geologic characteristics suitable for conversion to multiple turn and high deliverability storage.
- Diversify the location of storage facilities in California by providing centrally-located storage capacity in the southern San Joaquin Valley.
- Provide storage services in a geographic area with less intensive present land use and with land use projected to be less intensive over the long-term.
- Provide storage services at a location with reasonable access to PG&E's gas and electric facilities and make use of existing transportation and utility corridors.
- Create additional natural gas storage capacity in California in order to enhance natural gas supply reliability.
- Aid in mitigating natural gas price volatility.

2.2 NEED FOR THE PROJECT

Attainment of Project objectives is necessary and desirable. The Project will promote statewide natural gas policies and goals calling for the reliable, efficient, and cost-effective provision of natural gas services. Additionally, there is strong market demand for additional storage in California.

1. California Natural Gas Storage Policy

Fifteen years ago, in D.93-02-013 (the "Storage Decision"), the California Public Utilities Commission (the Commission), adopted a "let the market decide" policy for gas storage. The Commission found that a competitive storage market would further policies regarding efficient allocation of gas supplies, access to diverse gas supplies and lower costs through competition.¹ The Storage Decision followed Assembly Bill ("AB") 2744 (1992 Statutes, Chapter 1337), where

¹ Storage Decision, p. 5.

the California Legislature formally expressed its support for an open and competitive market for natural gas storage services. In AB 2744, the Legislature urged the Commission, among other things, to consider market-based rates for storage services provided by independent storage providers and unbundled investor owned utility storage facilities.

By issuing Certificates of Public Convenience and Necessity (CPCN) for the construction and expansion of the storage facilities of Wild Goose Storage, Inc. ("Wild Goose") (in 1997 and 2002), and Lodi Gas Storage, L.L.C. ("LGS") (in 2000, 2006, and 2008), and authorizing both to provide competitive natural gas storage service at market-based rates, the Commission took important steps to implement its and the Legislature's "let the market decide" policy.²

Additionally, in recent years, the CPUC and California Energy Commission ("CEC") have continued to recognize the benefits of storage and reiterated their support for increased in-state storage. In the 2005 Energy Action Plan II, the Commission and CEC identified under Natural Gas Supply, Demand, and Infrastructure, the following Key Actions: (1) provide that the natural gas delivery and storage system is sufficient to meet California's peak demand needs; and (2) encourage the development of additional in-state natural gas storage to enhance reliability and mitigate price volatility.³

In its 2007 Integrated Energy Policy Report ("2007 IEPR"), the CEC affirmed that:

The natural gas infrastructure system is critical to California's ability to provide a stable and reliable supply of gas since only 15 percent of our natural gas supplies are produced in state. Just as California looks for adequate supplies of natural gas, it must also ensure that its infrastructure can move and store supplies.⁴

The 2007 IEPR also recognized that "California's natural gas storage has been instrumental to help guard against interruptions or severe weather changes, ensuring adequate supplies and making some contributions to more stable prices."⁵

Energy Action Plan II and the 2007 IEPR recognize the need for increased storage as a means to ensuring California's natural gas infrastructure is sufficient to meet California's peak demand requirements, enhancing supply reliability, and providing price stability. The Project will provide important infrastructure improvements – in a central location currently without storage – that will help the state achieve its goals. In sum, the state of California (including the Legislature, the CPUC and the CEC), has long recognized the reliability and economic benefits of natural gas storage. The CPUC has repeatedly affirmed its commitment to an open and competitive market for natural gas storage services as called for in AB 2744 and the Storage Decision by allowing independent storage providers to supply new and expanded storage

2 D.97-06-091 (as modified by D.98-06-083) and D.02-07-036 (Wild Goose); D.00-05-048, D.06-03-012 and D.08-02-035 (LGS).

3 Energy Action Plan II, Natural Gas Supply, Demand, and Infrastructure, Key Actions 3 and 4, p. 10.

4 2007 IEPR, p. 225.

5 *Id.* at 227.

services at market-based rates. The Project will continue the Commission and the State's goal of fulfilling these critical state policies.

2. Market Demand for Additional Storage

There is demand for additional storage in California. The Gill Ranch Gas Storage Project (GRS) conducted an open season for its 75%, or 15 Billion cubic feet (Bcf), interest in the Project during the fall of 2007. The response to the open season demonstrated a level of interest that exceeded GRS's 15 Bcf Project capacity. Ongoing inquiries by GRS indicate that demand for the Project is strong.

PG&E has historically maximized utilization of its market gas storage capacity for firm and as-available storage and parking and lending services and has received requests for additional services. Similarly both the LGS and Wild Goose projects have been fully subscribed. In addition, LGS and Wild Goose have each independently sought and received permission from the CPUC to expand their respective project's capacity.

The Project will respond to market conditions and have the ability to inject and withdraw gas several times a day to respond to customer demands. The availability of highly flexible gas storage located near the point of use will:

- Enhance the reliability of gas supplies during peak demand periods
- Provide an alternative to maintaining a supply of diesel fuel oil as a backup fuel, as is commonly practiced by electric utilities in California
- Allow gas transporters to lock in the price of natural gas by "banking" it in the ground
- Provide a reliable means of balancing interstate and intrastate transportation volumes with pipeline capacity and tariff tolerances
- Allow customers in California to optimize their portfolios of interstate pipeline capacity contracts, improve efficiency of pipeline use, and optimize transportation costs for shippers

A more flexible supply system equates to greater operating efficiency and reduced costs to the utility rate payers. Industrial customers also accrue many of these same supply-reliability and price benefits.

The Project will enhance California's infrastructure in order to meet the swing demand for gas supplies created by existing and forecast increases in electric generating capacity. Since 1997, natural gas demand in the electric sector increased more than 50%, primarily as a result of the increased reliance on natural gas-fired electric generation.⁶ This translates to an annual growth

⁶ 2007 Final Natural Gas Market Assessment, In Support of the 2007 Integrated Energy Policy Report, Final Staff Report (December 2007) CEC-200-2007-009-SF, p. 14.

rate of over 4%.⁷ Looking ahead, natural gas demand for the electric power sector is forecast to have the most robust growth among end use sectors.⁸ Currently, California's demand for natural gas in the electric power generation sector is expected to increase by 2.4% over the next decade.⁹ In PG&E's service area, natural gas demand for the electric power sector is forecast to increase by 4% annually.¹⁰

Additionally, GRS and PG&E, like the Commission, recognize that climate change presents tremendous challenges. It is possible that legislative and regulatory action designed to reduce greenhouse gas emissions will result in increased development of natural gas-fired generation, at least over the short-term. As noted above, the Project will enhance California's infrastructure, helping to meet the swing demand for gas supplies created by existing and forecast increases in electric generating capacity.

The location of the Project in the San Joaquin Valley is ideal. The Project's central California location will make it possible to more efficiently and cost-effectively use existing utility gas infrastructure. It also will provide increased reliability during periods of high demand and during supply interruptions in California resulting from disruptions on the interstate gas delivery system. Because the Project is located in a rural agricultural area, it is possible to interconnect with PG&E's Line 401 via a pipeline route that results in no or less than significant environmental effects.

GRS and PG&E have carefully planned and designed the Project to carry out the State's natural gas policies and goals, and to help meet demonstrated market demand. The Project will create additional natural gas storage capacity in California in order to enhance natural gas supply reliability, provide centrally-located storage capacity in the southern San Joaquin Valley, and mitigate natural gas price volatility. As shown in this PEA, the Project's objectives and benefits far outweigh the Project's less than significant adverse impacts on the environment.

3. Economic Benefits

The Project will create socio-economic benefits for Madera County and Fresno County through employment opportunities and tax revenues. Construction of the Project will require a peak workforce of 350 workers during a 10 to 12 month construction period. It is estimated that up to 40% of these workers will come from the local labor pool. The remainder will be comprised of workers with relevant technical expertise from outside the Project area. It is anticipated that 10 full-time local employees will operate the Project after construction.

Applying current county tax rates, the Project will contribute an estimated \$1.2 million per year to fund local services in Madera County and approximately \$600,000 per year to fund local services in Fresno County.

⁷ *Id.*

⁸ *Id.* at 37.

⁹ *Id.* at 39.

¹⁰ *Id.* at 40.