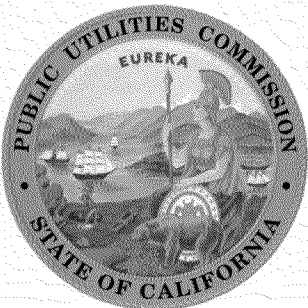


Kenyan Ministry of Energy and U.S. Department of Energy Visit  
to  
National Association of Regulatory Commissioners



**California Gas Procurement Model**

**Commissioner Timothy Alan Simon**  
**California Public Utilities Commission**  
**Chair, NARUC Committee on Gas**  
**November 28, 2012**





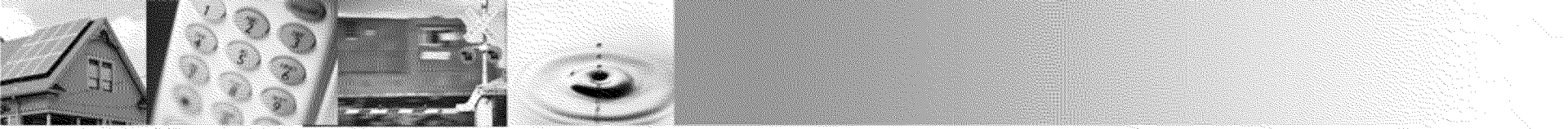
## Commissioner Timothy Alan Simon: Biography

Timothy Alan Simon is one of five members of the California Public Utilities Commission, which oversees investor-owned utilities in the electric, gas, communications, water, and transportation sectors. Commissioner Simon also sits on the National Petroleum Council, an oil and gas advisory committee to the Secretary of the Department of Energy (DOE). He serves as an Adjunct Professor in Securities Regulation at the Golden Gate University School of Law in San Francisco.

Prior to joining the Commission in 2007, he served as Governor Arnold Schwarzenegger's Appointments Secretary, the first African American in California history to serve in that capacity. Earlier in his career, he worked in the private sector as a securities and banking attorney specializing in financial products and services.

Commissioner Simon received a Bachelor's degree in Economics from the University of San Francisco, and a Juris Doctor from Hastings College of the Law, University of California.





# About CPUC

Californians spend more than \$59 billion annually for services from industries regulated by the CPUC.

Headquartered in San Francisco with offices in Los Angeles and Sacramento.

1,000 Employees: Including Engineers, Analysts, Lawyers, Auditors, Support

Five Governor-appointed Commissioners serve staggered six-year terms:

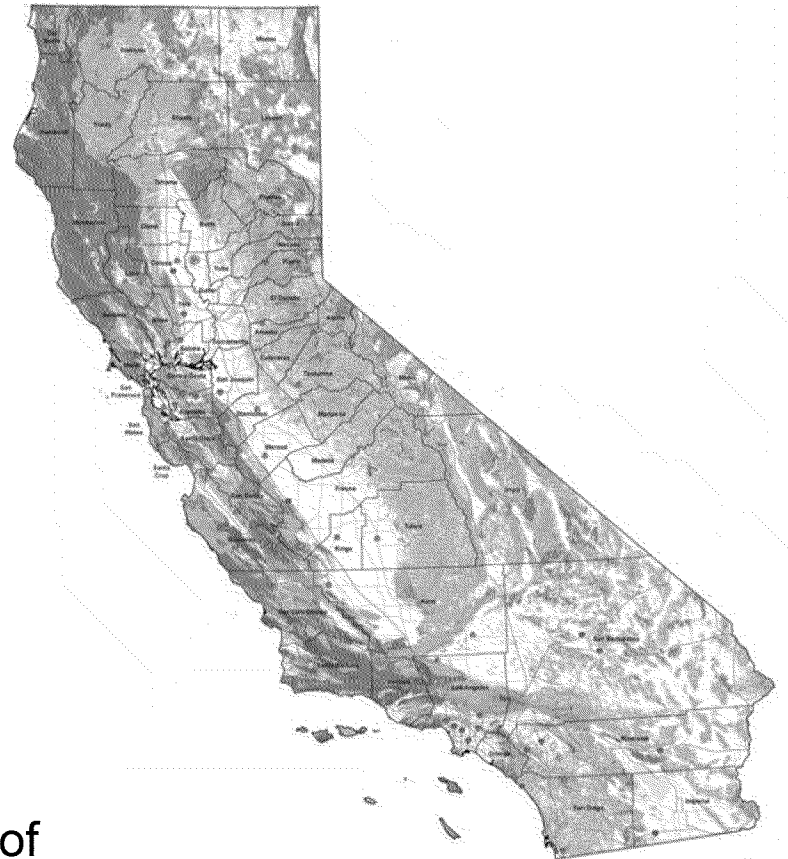
The CPUC serves the public interest by protecting consumers and ensuring the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement and a healthy California economy. We regulate utility services, stimulate innovation, and promote competitive markets, where possible, in the communications, energy, transportation, and water industries.

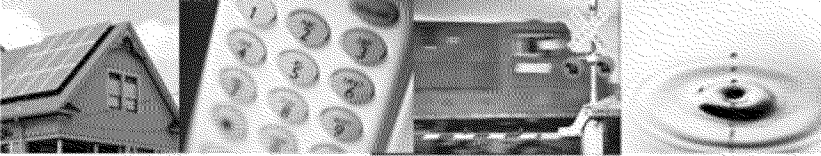




## State of California

- 38 million people in California
- Over 7 million in the SF Bay Area
- 26 million live in Southern California
- Nearly 10 million live in Los Angeles County
- Los Angeles County has a population larger than 42 other states
- Vast geographic climate, linguistic, cultural, economic diversity
- Rural areas the size of the State of Kentucky
- Rural population the size of the State of Vermont



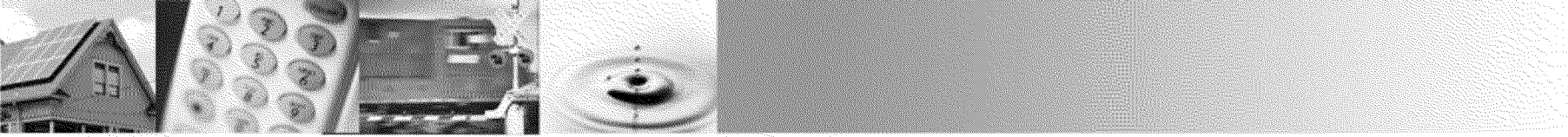


# DOGGR

The Division of Oil, Gas, and Geothermal Resources (DOGGR) was formed in 1915 to address the needs of the state, local governments, and industry by regulating statewide oil and gas activities with uniform laws and regulations.

The Division supervises the drilling, operation, maintenance, and plugging and abandonment of onshore and offshore oil, gas, and geothermal wells, preventing damage to: (1) life, health, property, and natural resources; (2) underground and surface waters suitable for irrigation or domestic use; and (3) oil, gas, and geothermal reservoirs.





# CPUC Regulation of Natural Gas Utilities

The three publicly traded Local Distribution Companies (LDCs) providing natural gas in California & regulated by the CPUC are:

## **Investor Owned Utility**

- Southern California Gas Company
- San Diego Gas & Electric 6.5 million combined gas meters
- Pacific Gas & Electric Company 4.5 million
- Southwest Gas Corporation 200,000





## Some data on California Gas

2011-12 Data are being updated

Demand (in millions of cubic feet per day, MMcfd)

California

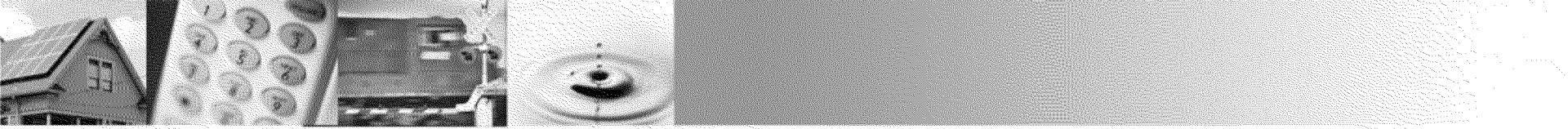
2010 State-wide Deliveries: 6041 MMcd

2010 Deliveries by CPUC-regulated Utilities 4828 MMcfd

2010 California Natural Gas Production 734 MMcfd

\*California imports over 75% of its natural gas





## Supply Source of California Gas

California's existing gas supply portfolio is regionally diverse and includes supplies from California sources (onshore and offshore), Southwestern U.S. supply sources (the Permian, Anadarko, and San Juan Basins), the Rocky Mountains, and Canada.

In 2011, the Ruby pipeline has come online bringing up to 1.5 Bcf/d of additional gas to California (via Malin) from the Rocky Mountains. The Energia Costa Azul LNG (liquefied Natural Gas) receiving terminal in Baja California provides yet another source of supply for California.





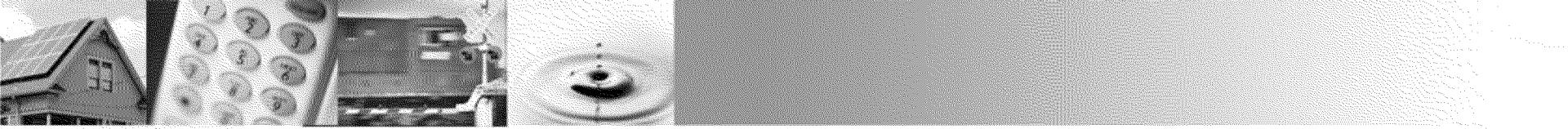


# Gas Cost Incentive Mechanism

Under GCIM we allow the utilities to purchase their own gas via the Incentive Mechanism. (Latest Decision, D.12-03-16, issued 3/8/12) for Core customers (residential, small commercial)

Under the GCIM program, the CPUC approves a “competitive benchmark” based on market price that utilities strive to beat when purchasing natural gas on the open market for its customers. If utilities purchase gas above the competitive benchmark, such as the Intercontinental Exchange index benchmark, beyond a certain tolerance band, then the utility shareholder/ratepayer is penalized (50/50). If utilities purchase gas below the competitive benchmark in excess of a certain tolerance band, the utility is rewarded along with ratepayers (90/10). Each utility submit end of the year true-up figures via Division of Ratepayer Audits. Incentive mechanisms align shareholder/ratepayer interests.



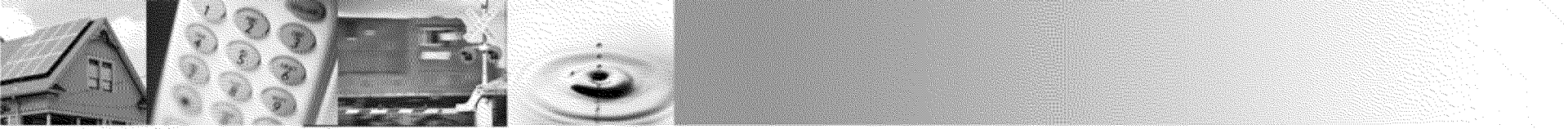


# Gas Cost Incentive Mechanism

Utilities may always contract without authorization or any discussion with Division of Ratepayer Advocate, The Utility Reform Network, or the Commission at all--but then the utilities are at risk of not getting cost- recovery for such contracts, if the Commission deems them unreasonable.

Typically expedited Advice Letters filed by utilities on Long Term contracts are NOT transparent. Utilities request confidentiality due to the market-sensitive data contained in those documents; at a later point in time the transactions may be made public when they aren't market sensitive anymore.



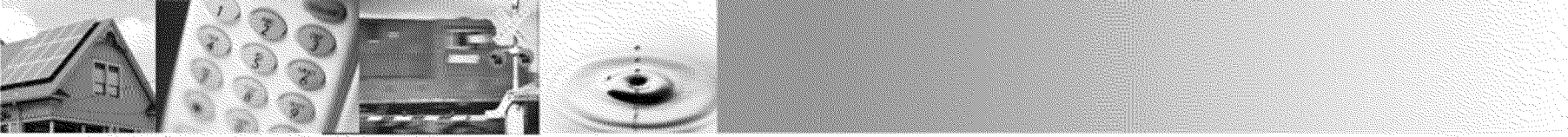


# Gas Capacity Long Term Procurement

Utilities used to buy multi-year contracts (10-15 year) but those were not flexible with price volatility. They hedged against high gas prices.

Post 2004 CPUC established a process where Division of Ratepayer Advocate, The Utility Reform Network, Energy Division staff review contract before signed for long-term capacity contracts. If the Review team finds a contract to be not cost-effective then utilities do not proceed. In this way, utilities do not bear the risks of pre-signing capacity contracts.





# Capacity Bidding

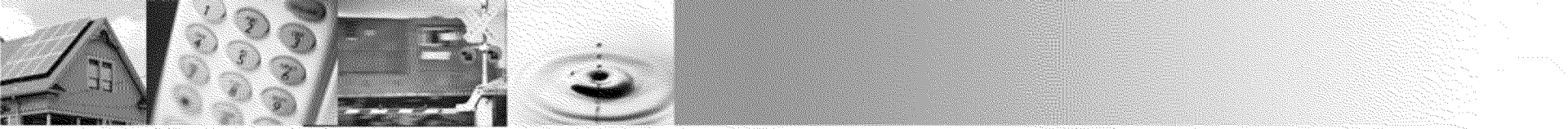
Utilities are required by the CPUC to hold firm capacity for 100% of their annual winter needs and 90% of their summer needs. Utilities purchase this capacity from interstate pipeline carriers (competing with other utilities and shippers of natural gas).

The capacity bidding is highly competitive. Federal Regulatory Energy Commission (FERC) is in charge of regulating inter-state pipeline capacity market.

Currently FERC is exploring gas-electricity interdependency market that will resolve different rules and timing inconsistency between two markets: non-core gas and electricity.

Storage also plays a key role in our procurement. If prices are high utilities can pull from storage. If prices are low utilities can inject into storage. This asset helps keep costs low for gas customers.





## Conclusion

- 2011 National Petroleum Council Report points out natural gas plays important role in our life. Natural gas provides a quarter of America's overall energy and is used to generate a quarter of the nation's electricity. It provides the heat for 56 million homes and apartments and delivers 35% of the energy and feedstock required by America's industries. What happens to natural gas supplies affects all Americans (NPC Report 2011).
- Shale Gas is a Game Changer. As late as 2007, it was thought that the United States would have to become increasingly dependent on imported liquefied natural gas, owing to what appeared to be a constrained domestic supply. That is no longer the case (due to shale gas production).
- LNG Export





**Thank you!**  
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