Core Interstate Pipeline Capacity Planning Range Application

April 23, 2014

Capacity Range Application Recommendations

- The Planning Range should include sufficient capacity to meet total core load (CTA + Bundled)
- California relies on imports 90% for its gas supply
  - Uncommitted pipeline capacity is not reserved for California
  - Only firm contracts with renewal rights guarantee access to supply basins
  - New York State's model supports PG&E's recommendations – Utility holds adequate pipeline capacity contracts and allocates capacity to CTAs to ensure long-term reliability
- CTAs should pay the full cost of the interstate capacity procured by PG&E for their customers as all core customers receive the same level of reliable service
- PG&E's proposed Interstate Pipeline Capacity Planning Range is appropriate and reasonable
  - November – March: 105% - 120% of forecasted average annual daily core demand
  - April – October: 85% - 120% of forecasted average annual daily core demand
- PG&E's proposed process for meeting and updating the core interstate capacity planning range is reasonable
  - The updating process ensures that the planning range reflects current market conditions and is based on sound analysis using data published from the California Gas Report
  - PG&E also proposes an annual process for seeking CTA input on the capacity contract portfolio

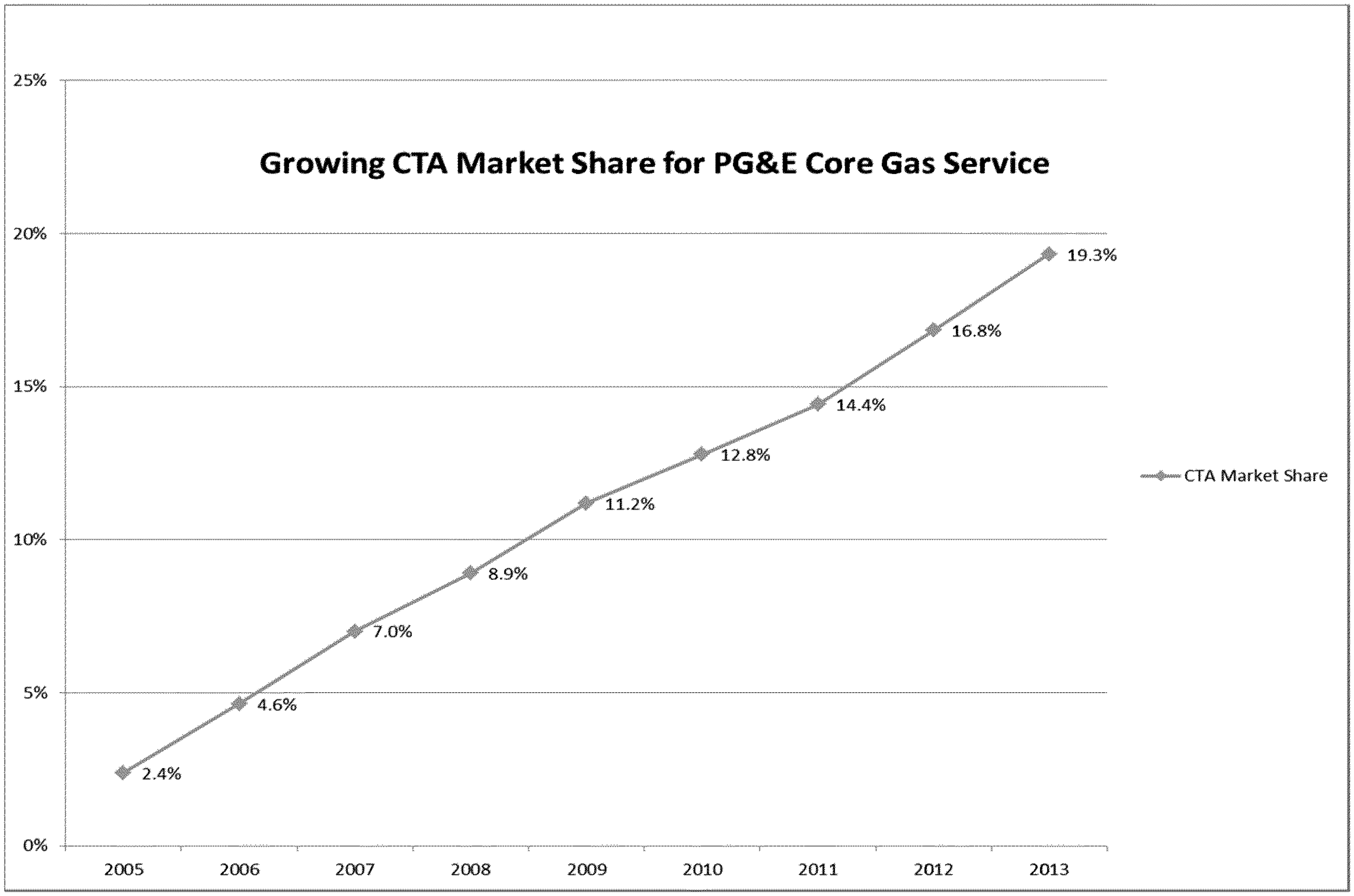
Holding Firm Interstate Capacity Benefits Bundled and CTA Customers

- Enhances priority of service
- Pipelines flow firm contracts ahead of interruptible
- Firm shipper maintains control of supply access and the transportation path to bring the gas to market
- Relying on others to bring gas to California is risky
- This "reliability insurance" costs core customers about $38 per year
- Encourages gas-on-gas competition
- Supports gas price stability

CTA Growth in PG&E Service Territory

PG&E

Despite assertions that they cannot compete, CTAs continue to gain market share even as their core capacity cost contribution increases



PG&E's Proposal Is Supported by Recent CPUC Policies

2003 California Energy Action Plan (EAC) goal to ensure adequate, reliable and reasonably-priced electrical power and natural gas supplies

- EAC 2008 Update: Reinforces importance of diverse and reliable gas deliveries
- D.04-09-022: Adopts core interstate pipeline capacity planning ranges for gas utilities to ensure reliable long term gas supplies
- R.02-06-041: Required utilities to preserve [i.e., contract] interstate pipeline capacity to CA, noting that marketers holding capacity have no public service obligation to meet the needs of CA consumers
- D.02-07-037: CPUC determined that retaining [El Paso] capacity to CA provides an important hedge against price spikes as well as reliability benefits
- D.08-11-032: The Ruby Pipeline decision acknowledged CPUC responsibility for ensuring that CA maintains access to adequate gas supplies
- D.11-04-031: Adopts the CTA Settlement Agreement, specifying CTA acceptance of their share of PG&E's pipeline capacity and storage
- D.95-07-048: Cited by Shell and CTAs as requiring unbundling of CTA capacity, predates the CA Energy Crisis and subsequent Decisions and Policies

CTA Assertions Are Incorrect

CTA assertion	Reality
In era of abundant interstate capacity as well as in-state assets – no need to hold capacity contracts.	The capacity reductions in PG&E's revised planning range appropriately reflect current and future market conditions. Market conditions are changing. Upstream markets and demands are growing and firm capacity is being diverted to serve these markets (e.g., Mexico). Kern River may be 100% subscribed soon. Bentek data shows diminishing west production, and increasing CA and U.S. SW demands.
CTAs have as much obligation to serve core customers as PG&E.	Sufficient interstate capacity should be held to ensure PG&E can meet its Default Supplier obligation, which is not required of CTAs.
Free market economics will always bring capacity and gas to California as long as customers are willing to pay the price.	Market forces are at times disruptive (e.g., Energy Crisis), and may severely inhibit importation of gas at reasonable prices, particularly in the short-run given the long lead time associated with developing new interstate pipeline capacity.
CTAs cannot compete if required to take and/or pay for PG&E capacity.	Record evidence refutes this assertion. PG&E has one generic portfolio, and a single commodity rate. CTAs' own witnesses testified that they tailor various pricing options and products to customers' needs. CTA loads continue to grow despite CTA capacity cost contribution increases.

Conclusion

- PG&E's proposal is based on sound analysis and is supported by customer advocacy groups – TURN and ORA, as well as other market participants – Kinder Morgan and GTN
- Under CTAs' proposal, no firm capacity will likely be held for 20% of core customers, with percentage increasing over time.
- Competition has not been hampered by existing policy and is enhanced by providing a level playing field
- Existing policies have been successful in supporting the long-term reliability of gas supplies for core customers
- SoCal Gas agrees with PG&E that exceeding the 10% threshold of CTA market penetration "┐ supports a difference in the Commission's treatment of PG&E and SoCalGas┐"