



SOUTHERN CALIFORNIA
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Douglas K. Porter
Senior Attorney
Douglas.Porter@sce.com

March 4, 2005

Docket Clerk
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

RE: R.04-01-025

Dear Docket Clerk:

Enclosed for filing with the Commission are the original and five copies of the **COMMENTS ON CEC/CPUC WORKSHOP ON GAS QUALITY ISSUES** in the above-referenced proceeding.

We request that a copy of this document be file-stamped and returned for our records. A self-addressed, stamped envelope is enclosed for your convenience.

Your courtesy in this matter is appreciated.

Very truly yours,

Douglas K. Porter

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Enclosures

cc: All Parties of Record
(U 338-E)

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA AND THE CALIFORNIA ENERGY COMMISSION**

In the matter of:)	
Informational Proceeding and Preparation)	Energy Commission Docket No.
of the California Energy Commission 2005)	
Integrated Energy Policy Report and)	04-IEP-01
California Public Utilities Commission)	
Natural Gas Order Instituting Rulemaking)	CPUC Docket No.
04-01-025.)	R.04-01-025

COMMENTS ON CEC/CPUC WORKSHOP ON GAS QUALITY ISSUES

ANN P. COHN
DOUGLAS K. PORTER

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-3964
Facsimile: (626) 302-3990
E-mail: Douglas.Porter@sce.com

Dated: March 4, 2005

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COMMENTS ON CEC/CPUC WORKSHOP ON GAS QUALITY ISSUES

SCE would like to commend the CEC and the CPUC for holding the workshop on Gas Quality issues on February 17 and 18, 2005. SCE welcomed the opportunity to put forth its views on gas quality issues and was pleased overall with the workshop agenda and presentations by the various parties. SCE strongly supports the CEC and CPUC efforts to assure adequate gas supplies in California. However, SCE is still concerned that the link between the gas and electricity business is lacking enough emphasis. The specific proposals of Sempra Energy Utilities to change Rule 30 gas specifications should not be adopted until its impact on power generators is fully understood.¹

At the workshop, SCE presented its concerns about the effect such changes in gas quality specifications could have on the power industry. SCE suggests that the Commissions must keep in mind two facts: one, that the dominant source of fuel for power generation in California is natural gas, and, two, that virtually all residential gas ratepayers are also residential electric ratepayers. The opportunity to lower gas

¹ SCE is authorized to state that these comments are supported by the Southern California Generation Coalition.

commodity prices by potentially relaxing gas quality standards might appear to be an admirable goal. However, lower gas commodity prices may not be a net benefit to gas and electric ratepayers if they are forced to pay a higher price for electricity, for example, as a result of generators having to upgrade equipment to burn an inferior quality of gas.

SCE does not assert that LNG will definitely cause problems for power plants. However, changing gas quality specifications without studying its impact on equipment operation, reliability or the cost of electric generation raises major concerns. The fact that Sempra Utilities were unable to comment on the impact on SDG&E's Palomar power plant of variations in gas quality speaks volumes about how this issue is very little understood. Concerns about the impact of changes in gas quality specifications could become even more critical as new, highly efficient combined cycle gas turbines become a larger portion of generation capacity in California. SCE wants to ensure that California does not change gas quality specifications to attain lower gas commodity prices without fully understanding the impact on electricity prices and on reliability of the electric grid.

SCE heard various presentations from Sempra Energy Utilities and the Gas Technology Institute about what were termed minimal impacts on emission rates caused by variations in gas quality. However, given the very low emissions rate limits imposed on generators under SCQAMD jurisdiction, these so-called minimal impacts could translate to very substantial impacts on these generators. Standards for gas quality set nationally may not be applicable to power generators under the jurisdiction of SCAQMD. The presentations also did not address the impact of varying levels of gas quality on equipment efficiency. Degradations in equipment efficiency could also significantly impact the cost of generating electricity.

A fundamental issue is whether changes in gas quality specifications are necessary. SCE is not convinced that gas quality standards must be relaxed to

attract LNG developers. During the workshop, BHP Billiton and Sound Energy Solutions made it clear that their LNG imports would be able to comply with existing gas quality standards. The implication clearly was that the LNG importers can invest in necessary systems as part of LNG train design to ensure the customers receive gas of suitable quality. Consequently, SCE contends that the CEC and the CPUC should focus on whether it is indeed necessary to relax quality standards of the gas transportation networks receiving the gas volumes, or whether the LNG providers ought to invest in the necessary systems at the production end as part of their LNG train designs.

The pressure to lower gas quality standards seems to come from the LNG developers locating in Baja California. It is critical that any potential changes in the gas quality standards be evaluated by their potential benefit to ratepayers and not from the perspective of what benefits might accrue to an LNG developer looking to deliver supplies into Southern California.

SCE is not aware of any technological impediments to processing LNG to meet current standards. Consequently, it would be inappropriate for the CEC and the CPUC to change gas quality standards for LNG developers, especially since the

impact of such a change on electricity generation and electric system reliability has not been fully studied.

Respectfully submitted,

DOUGLAS K. PORTER



By: Douglas K. Porter

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-3964
Facsimile: (626) 302-3990
E-mail: Douglas.Porter@sce.com


March 4, 2005

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true copy of **COMMENTS ON CEC/CPUC WORKSHOP ON GAS QUALITY ISSUES** on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

- Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.
- Placing the copies in sealed envelopes and causing such envelopes to be delivered by hand or by overnight courier to the offices of the Commission or other addressee(s).
- Placing copies in properly addressed sealed envelopes and depositing such copies in the United States mail with first-class postage prepaid to all parties.
- Directing Prographics to place the copies in properly addressed sealed envelopes and to deposit such envelopes in the United States mail with first-class postage prepaid to all parties.

Executed this **4th day of March, 2005**, at Rosemead, California.



Nicole Broadwater
Project Analyst
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770