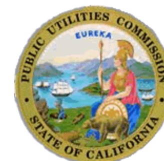

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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COMMENTS OF WILD GOOSE STORAGE, LLC AND LODI GAS STORAGE, L.L.C. ON THE ASSIGNED COMMISSIONER'S RULING ISSUING FIRST AMENDMENT TO SCOPING MEMO AND SEEKING COMMENTS

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Dated: June 10, 2024

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In accordance with the Assigned Commissioner's May 13, 2024 ruling amending the scoping memo and seeking comments, Wild Goose Storage, LLC and Lodi Gas Storage, L.L.C. submit these opening comments on the questions specifically related to Independent Storage Providers (ISPs). As Wild Goose and Lodi explain below, no changes should be made to the ISPs' existing reporting requirements or market-based rates; any such changes would not be in the public interest.

I. COMMENTS ON QUESTIONS REGARDING POTENTIAL RELIEF MEASURES

5. Should the Commission require independent storage providers (ISPs) to publicly report daily inventory levels? Why or why not? If so, on what platforms should ISPs report daily inventory levels (e.g., respective gas utilities' websites, PG&E's website, the Commission's website, or a combination of these websites)?

The Commission should not require the ISPs to publicly report their daily inventory levels. The ISPs already provide Commission staff with monthly reporting on inventory levels,[1] which provides significant transparency for the Commission into ISP operations and gas market

[1] See, e.g., D.10-10-001, p. 13 (listing ISP Commission reporting requirements to include copies of all short- and long-term service agreements, and annual reports that include information regarding capacity, average monthly storage inventory, injections and withdrawals, daily operating records, and firm and interruptible capacity under contract.)

conditions. Those reports are not publicly available, nor should they be; the ISPs operate in a competitive market and making market-sensitive inventory levels public would harm competition and could ultimately increase natural gas prices.

The Commission has never required ISPs to report daily inventory levels, as PG&E and the Sempra gas utilities are required to. Public disclosure of ISP inventory levels would allow competing ISPs and potential customers to gain an advantage in negotiating storage rates. This is fundamentally incompatible with the ISPs' market-based rate structure, under which the ISPs are fully at risk for recovering their capital investments and expenses through negotiated rates. PG&E and the Sempra utilities, whose storage assets were constructed at ratepayer expense, and who charge Commission-regulated rates that include a guaranteed return on investment, are not impacted negatively when their storage inventory levels are made public.

There is also no evidence that disclosure of ISP inventory levels will make more storage capacity available to individual customers or to the market. In fact, the inherent at-risk nature of ISP investments ensures that ISPs already have a strong incentive to market all of their capacity in order to recover their costs. The ISP market is highly competitive and customers routinely move their storage requirements from one ISP to another as a result of small changes in storage rates.

The existing conditions of the price-competitive market provide the strongest possible assurance the Commission can have that the ISP market structure is working as intended. This is demonstrated by the fact that (1) utility ratepayers do not bear the risk of investment in ISP storage; (2) the entire market benefits from the crucial and flexible storage capacity built by the ISPs at their own expense; and (3) a competitive market for storage reduces price volatility as available storage capacity and storage demand fluctuate throughout the gas demand year.

Requiring disclosure of available ISP capacity will change the dynamics of ISP contract negotiations by removing the protections afforded by market competition, without any evidence that disclosure will make more capacity available during times of peak consumption.

6. Should more PG&E storage capacity be allocated to core customers to reduce the amount of storage Core Gas Supply must purchase from ISPs? Should rates charged by ISPs for storage procured by PG&E for core customers be set by the market or at cost-plus-rate-of-return?

No, more PG&E storage capacity should not be allocated to core customers to reduce Core Gas Supply purchases from ISPs. Nor should ISP rates for PG&E core customers, or, indeed, any customers, be set at cost-based rates. Wild Goose and Lodi believe these questions reflect fundamental misunderstandings about the natural gas storage market in California. There are key issues that must be addressed to correct the misconceptions.

(a) Storage reduces volatility in the price of natural gas

Storage comprises only one aspect of the price of natural gas. Macroeconomic factors are the main drivers of natural gas prices. Price volatility is correlated to seasonal demand and weather-related events. Storage is generally contracted for many months before winter and prices are set on the forward curve. During a peak demand event, storage operators deliver a customer's natural gas out of storage at their direction, at storage prices agreed to many months in advance; the customer is not subject to spot pricing from storage. The more storage a customer contracts for, the less it will have to rely on spot pricing to meet its delivery obligations. The ISPs do not provide natural gas transportation services and, with storage services alone, do not gain windfall profit from high demand events as a significant portion of capacity is contracted to customers.

California is a demand center for natural gas. During cold-weather events, California and other parts of the west coast experience price increases because demand exceeds supply. When

demand is high throughout the region natural gas is often bid away at even higher prices to the Rockies and Pacific Northwest. When winter gas supply is being diverted to other states, natural gas flows into California are reduced. At these peak demand times, such as those that occurred during the winter of 2022–2023, natural gas can actually be cheaper in California than other states, because storage in California is on full withdrawal and balancing the demand. Were it not for storage, California would have to out-bid other western states to ensure sufficient supply into California, which would substantially increase customers' gas bills. Short of building significant new supply infrastructure, storage is the only mechanism to dampen price spikes in California. Time and time again, the ISPs have demonstrated that the storage services they provide is the most cost-effective and reliable method for balancing demand during peak events and reducing the price of natural gas.

(b) PG&E storage is not cheaper or more reliable than ISP storage

Allocating more PG&E storage capacity to core customers ignores the fact that PG&E storage is more expensive, older, and more costly to maintain[2] than ISP storage. PG&E storage provides no benefit to core customers over ISP storage. In fact, PG&E's last two gas rate case proceedings have vacillated on whether PG&E should even keep two of its three old converted-production fields for core storage.[3] PG&E has also contracted with multiple ISPs to provide core storage for many years, which has provided a reliable and cost-effective option for PG&E. As Wild Goose and Lodi explained in PG&E's most recent general rate case—and as PG&E itself argued in the rate case before that one—ISP storage is more reliable and less expensive.[4] The

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[2] Underground Gas Storage Rules (1726.3(d)(1), 1726.5, 1726.6) require tubing on packer installations. PG&E has shown in its most recent rate case that it is spending significantly more money complying with than Wild Goose and Lodi.

[3] See A.17-11-009, A.21-06-021.

[4] A.21-06-021, Wild Goose and Lodi Opening Brief, p. 19.

ISP facilities are purpose-built storage fields with more modern equipment and are decades newer than PG&E's storage facilities.[5] There is no logical reason to reduce the amount of core storage that could be provided by ISPs—particularly when the ISPs' 130.5 Bcf of combined capacities dwarf PG&E's own storage capacity.[6]

(c) ISPs should not be rate-regulated

The suggestion that ISPs be rate-regulated on a cost-of-service-plus-return basis is inconsistent with the Legislature's and Commission's clear intention to create a competitive market to encourage investment in independent gas storage. ISP rate regulation will not provide more storage capacity for the market or lower rates for end-use customers. There is no evidence that a cost-of-service model is cheaper. Moreover, the proposition that ISPs be rate-regulated for PG&E core storage contracts ignores the fact that ISPs, operating on market-based principles in all other aspects of their business, would only enter into PG&E core storage contracts if the terms were commercially viable within the context of all the ISPs' other contracts. Given the inefficiencies created by rate-regulated contracting with only one customer, the only way that a cost-of-service model would work is if the ISPs were rate-regulated entirely. As detailed below, this was never the intention of the Legislature, or the Commission, nor is it in the best interests of the customer. Market-based rates creates competition and efficiency in the gas storage market, both of which are key drivers for reducing costs.

(i) History of unbundling the natural gas market

The natural gas industry transformed in the 1980s and 1990s, with major policy changes at both the federal and state level. Before these changes, investor-owned utilities provided all

[5] A.21-06-021, Wild Goose and Lodi Opening Brief, pp. 12, 19.

[6] A.21-06-021, Wild Goose and Lodi Opening Brief, p. 19.

natural gas services to customers within their service territories and the Commission determined the utility customers' gas costs through ratemaking decisions, which set rates for the entire "bundle" of services the utility provides.[7] Rates were set based on the cost of purchasing and delivering natural gas.[8]

The catalyst for the transformation that occurred in the 1980s and 1990s was when the Federal Energy Regulatory Commission mandated open access and allowed unbundled services on interstate natural gas pipelines throughout the United States.[9] Unbundling allowed for pipelines to separate their sales services from their transportation services. This meant that California gas users could purchase their gas supplies directly from natural gas producers across the western half of North America and arrange with other companies to provide the other gas services they needed.

Increasingly, during the late 1980s, large commercial and industrial customers and groups of smaller customers were arranging to purchase their own natural gas supplies directly from gas producers, and then pay pipeline companies and local gas utilities to deliver the purchased gas to the customers' facilities. Policymakers soon realized that these customers could also benefit from purchasing natural gas storage services, allowing them to purchase and store gas when prices are relatively low and supplies are relatively high, and withdraw the gas from storage for use when prices are high or supplies are scarce, such as during a severe cold spell.[10]

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[7] See D.00-05-048, p. 2 (approving Lodi's CPCN application and describing then-recent changes in the natural gas industry).

[8] *Ibid*.

[9] *Ibid*.

[10] *Ibid*.

In 1992, the California Legislature formally expressed its objective of creating competition for natural gas storage services with the passage of AB 2744 (Stats. 1992, ch. 1337). The Legislature found that the "primary institutional barrier [to] investment in [storage] projects [was] the inability of suppliers of storage services to compete in an open and competitive market."[11] The Legislature further found that unbundling of utility storage services and the opportunity for storage services to be provided at market-based rates would greatly increase the benefits of storage.[12] AB 2744 directed the Commission to adopt these changes, among other directives, to encourage development of an independent storage market.[13]

On February 3, 1993, the Commission issued D.93-02-013 (the "Storage Decision"), which responded to the Legislature's directives in AB 2744 and adopted policies and rules for natural gas storage programs.[14] The Storage Decision authorized unbundling of noncore storage service, allowed independent storage providers to enter the storage market, and decreed that their rates would be market-based.[15] The Commission found that "there is a need for unbundled storage service, and a 'let the market decide' policy is the best way to serve that need."[16]

The "let the market decide" policy for construction or expansion of storage facilities was inspired by the Commission's approach to creating a competitive market for the gas pipeline industry.[17] The Commission found that a competitive gas market efficiently allocated gas supplies, provided access to diverse gas supplies, and lowered costs through gas-on-gas

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[11] Stats. 1992, ch. 1337, §1(a)–(b).

[12] Stats. 1992, ch. 1337, §1(c).

[13] D.00-05-048, p. 3; Stats. 1992, ch. 1337, §1(d).

[14] 48 CPUC 2d 107 (D. 93-02-013).

[15] 48 CPUC 2d 107 (D.93-02-013), p. 128.

[16] *Ibid*.

[17] See *id.* at pp. 118–119.

competition. The Commission found that these policy principles similarly applied to gas storage services.[18]

The Legislature's and the Commission's reasoning for unbundling storage services and allowing market-based rates remains relevant. Since the passage of AB 2744, nothing has changed such that the underlying reasoning behind market-based rates needs to be re-evaluated. Over the course of their quarter-century operating history, the ISPs have used market-based rates to meet the Commission's goals for the independent gas storage market: ensuring adequate, reasonably priced, stable, and reliable gas supplies for core customers; achieving and maintaining access to diverse and reliable gas sources, at reasonable prices, for all customers; and reducing the likelihood of peak period curtailments in a cost-effective manner.[19]

(ii) Creation of the ISPs and continued affirmation of market-based rates

On June 25, 1997, the Commission approved the first CPCN pursuant to the Storage Decision, allowing Wild Goose to develop, construct, and operate an underground storage facility and to provide firm and interruptible storage services at market-based rates.[20] In its CPCN decision, the Commission also excused Wild Goose from the obligation to file cost justifications for its tariffs. The Commission recognized if Wild Goose were required to disclose its rate cost calculations, it could put Wild Goose at a market disadvantage because it must compete with large incumbent local distribution companies.[21]

On May 18, 2000, the Commission, after exploring the history of gas market unbundling

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[18] *Id.* at p. 118.

[19] 48 CPUC 2d at p. 118.

[20] D.97-06-091.

[21] *Ibid*.

and the Gas Storage Decision, approved Lodi's CPCN to construct its gas storage facilities and to provide firm and interruptible storage services at market-based rates.[22] The Commission subsequently granted Lodi a CPCN to construct and operate the Kirby Hills storage facility, and affirmed that approving market-based rates for Lodi was consistent with the Storage Decision and policies promoting competitive gas storage facilities.[23]

Eight years later, the Commission authorized Gill Ranch Storage to enter the market, observing that Gill Ranch's participation "will provide another competitive natural gas storage option in California, reducing market concentration and minimizing the potential for the exercise of market power by any single market participant."[24] After determining that Gill Ranch lacked market power, a key factor in which is that the ISP's shareholders are at risk for all investments and operations, the Commission approved market-based rates within a rate zone to allow for fluctuations in the market, as it did for Wild Goose and Lodi.[25]

One year later, the Commission authorized Central Valley Gas Storage (CVGS) to construct and operate its gas storage facility, and to charge market-based rates.[26] The Commission applied the well-established criteria to determine if CVGS lacked market power, and concluded that market-based rates were appropriate.[27] The Commission also exempted CVGS from providing cost data due to its market-based rates, as the main purpose of that data is to assist the Commission in setting cost-based rates.[28]

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[22] D.00-05-048, Conclusion of Law No. 34 (finding that Lodi lacked market power).

[23] D.06-03-012, p. 2.

[24] D.09-10-035, p. 13.

[25] *Id.* at p. 54.

[26] D.10-10-001, p. 26

[27] *Id.* at pp. 25–26.

[28] *Id.* at p. 25.

The Commission has repeatedly affirmed the ISPs' market-based rates and the fact that their shareholders bear all operational risks in the intervening years since authorizing each ISP's operations, under a variety of circumstances: expansion of storage capacity provided in the ISPs' CPCNs;[29] approval of financing transactions;[30] and transfer of control of CVGS.[31]

By any standard, the independent storage market has been a success, with four market entrants making substantial investments in gas storage. This independent storage has proven invaluable to the northern California market. For example, during the polar vortex event in early 2014, and the periods of abnormally cold weather in the following months, PG&E relied on storage withdrawals for over 70% of its peak day supply, less than 30% of which came from PG&E storage, because pipeline supply was being diverted to colder areas.[32] Gas storage plays a crucial role in supply reliability and price stability for California, as the Commission has acknowledged.[33] It is not necessary to subject ISPs to rate regulation to obtain the reliability, price arbitrage, and competitive pricing benefits that independent storage provides. To the

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[29] See, e.g., D.03-08-048, p. 1 (acknowledging Lodi's market-based rates); D.04-05-046, p. 1 (same); D.08-02-035, p. 4 (affirming market-based pricing authority for Lodi at its Kirby Hills facility); D.09-12-038, p. 2 (acknowledging Lodi's market-based rates); D.10-12-038, pp. 2, 5, 9–10 (affirming the appropriateness of Wild Goose's market-based rates); D.13-06-017, p. 13 (affirming appropriateness of Wild Goose's market-based rates because its shareholders remain completely at risk for cost recovery for storage facility construction and operations).

[30] See, e.g., D.17-10-014, p. 10 (noting that Wild Goose and Lodi have no captive ratepayers and their shareholders bear the risk of the proposed financing transaction); D.18-10-029, p. 8 (same); D.21-11-020, pp 5–6, 10 (acknowledging Wild Goose and Lodi's market-based rates, their lack of captive ratepayers, and that their shareholders bear the risks of the proposed financing transaction).

[31] D.23-08-033, p. 7 (concluding that the transaction will not change any aspect of CVGS's operations, explaining that it operates under market-based rates, not a cost-of-service and rate-of-return framework, its ratepayers bear no risk for investments or operations, all of its customers have competitive options, and it has no market power); D.14-12-013, p. 12 (approving the transfer of control of Lodi and acknowledging Lodi's market-based rates).

[32] A.21-06-021, Wild Goose and Lodi Opening Brief, p. 20 (November 4, 2022).

[33] See D.23-08-050, pp. 10–18 (approving expanded storage capacity for Aliso Canyon based in part on evidence of increased costs to customers as a result of reduce gas storage capacity); I.23-03-008, p. 2 (noting that 90% of California's gas supply is imported through pipelines and stored in gas storage fields).

contrary, rate regulation would put an end to competitive natural gas storage rates.

(iii) ISP contracts with PG&E should not be based on cost-of-service pricing

The ruling asks whether ISP contracts with PG&E specifically should be at cost-plus-rate-of-return pricing. The answer is "no." In addition to the legislative, policy, and market-competition mandates against rate-regulating ISPs as a general matter, it would be highly impractical and burdensome to craft cost-of-service rates for only one of the ISPs' customers. It is not clear that such an undertaking would even be possible, given that PG&E's share of an ISP's capacity (and the associated operating costs) fluctuates in real time based on the contracts held by other customers. Identifying the costs to be factored into the model would be challenging and largely subjective, leading further away from the certainty the Commission is seeking. Crafting a cost-of-service contract for PG&E would require provisions allowing ongoing price adjustments, which would obviate one of the key benefits that PG&E (and its core customers) receives from ISP contracts: long-term price stability at rates set by a competitive market. Requiring ISPs to switch to cost-based rates would unwind a market that has functioned effectively for thirty years, and drive away investment and efficiency, all of which would not serve to benefit Californians in any way.

II. CONCLUSION

The Commission will not gain additional tools to guard against natural gas price spikes by dismantling the competitive natural gas storage market. To the contrary, the existing competitive market provides significant benefits to retail gas customers *because* it is competitive. Requiring ISPs to make their market-sensitive inventory levels public will not result in more available storage or better pricing. Requiring PG&E to contract for less ISP storage, and requiring its remaining contracts to be set at cost-plus-rate-of-return rates, will only increase

customer costs and eliminate the valuable price hedging benefits that ISP storage provides to PG&E. Wild Goose and Lodi support the Commission's efforts to avoid significant gas price increases in the future, but the best way to achieve that goal is to allow the ISPs to remain competitive—not impose on them the same requirements that the IOUs are subject to as a result of their captive customers, regulated rate of return, and ratepayer-funded capital investments. None of these characteristics apply to ISPs.

Respectfully submitted June 10, 2024, at San Francisco, California

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