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

Order Instituting Investigation on the Commission's Own Motion into Natural Gas Prices During Winter 2022-2023 and Resulting Impacts to Energy Markets	I.23-03-008 (Filed March 16, 2023)

COMMENTS OF THE UTILITY CONSUMERS' ACTION NETWORK (UCAN) ON THE ASSIGNED COMMISSIONER'S RULING ADMITTING STAFF WHITE PAPER PART 1 AND SEEKING COMMENTS

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Date: July 31, 2024

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I. INTRODUCTION

Pursuant to the Administrative Law Judge's Ruling admitting the white paper entitled, "(I.) 23-03-008 High Natural Gas Prices in Winter 2022-23: Part 1 Staff White Paper" (White Paper) into the proceeding record and seeking recommendations, corrections, and/or clarifications to the White Paper by opening comments issued on July 2, 2024, the Utility Consumers' Action Network ("UCAN") respectfully submits these comments in response.

II. COMMENTS REGARDING CERTAIN WHITE PAPER ISSUES.

In its review and assessment of the background and factors that led and contributed to the High Natural Gas Prices crisis during the 2022-23 Winter season, the White Paper spotlighted many conditions and causes. As recognized, and UCAN does not disagree with the general premise, the following factors, in combination, contributed to the extremely high gas prices: 1) pipeline constraints; 2) reduced natural gas flows; 3) widespread, below-normal temperatures; and 4) low storage inventories in the West.[1] The White Paper, though, did identify practices that, underlying and in conjunction with those factors, contributed to the rates that ultimately were passed onto ratepayers and customers.[2] In its comments, UCAN focuses on these practices and recommends that the CPUC, and other regulatory bodies, continue to investigate, evaluate and ultimately propose new and revised rules, incentives, or other policies/directives that can guide

[1] White Paper, at p3. (unless otherwise noted, all remaining footnotes are cited from the White Paper).
[2] At p. 27. (And, in fact, the White Paper cites that the trends were not unaware. "As part of its regular monitoring of gas prices, Staff became aware of certain price trends in summer 2022 when winter price forecasts were around $12/MMBtu. Staff requested information from PG&E and SoCalGas in August 2022 about the potential impact from anticipated high gas prices on winter 2022-2023 residential customer gas bills.")

future events. And, in particular, UCAN urges the CPUC not to refrain but continue to investigate and even "audit" SoCalGas practices.

1. Monthly-Focused Purchasing Strategy.

The White Paper documents that monthly indexed prices for January were unusually high in California[3] and at several other Western gas trading hubs. **Given SoCalGas Gas Acquisition's monthly-focused purchasing strategy, high monthly indexed prices resulted in higher gas costs for SoCalGas Gas Acquisition. Monthly indexed prices for most months in winter 2022- 2023 were likely also higher due to SoCalGas Gas Acquisition's fixed-price monthly purchases.**[4] As revealed, SoCalGas Gas Acquisition made many fixed-price purchases during the winter, including for December and January delivery. **Many of SoCalGas' fixed-price purchases during this time were at prices above the later-published bidweek index. This occurred for most months during the winter and was most pronounced for January.** In comparison, PG&E Core Gas Supply made far fewer fixed-price monthly purchases, and those they made were at below-index prices.[5]

The White Paper does dedicate significant context to a review of the role of (higher) monthly prices. For example, consideration is given to the timing of bidweek. Monthly index prices are set at the end of the preceding month, so they often reflect price expectations during that period. Bidweek for January 2023 took place December 23-28, 2022, just after the California spot market hit its winter peak of $53.11 on December 22 and during Winter Storm Elliot (December 21-26).[6] And it is pointed out that gas prices were elevated in both the monthly and daily markets throughout the West in winter 2022-2023. While the winter began with November and December daily gas prices averaging higher than the monthly index, January and February monthly price indices exceeded the average daily price in various parts of the West.[7]

"Staff analysis shows that both PG&E Core Gas Supply and SoCalGas Gas Acquisition had contracted for more than half of their winter gas supply before October 25, 2022, and nearly all these long-term contracts were priced based on monthly indices. **Thus, a significant portion of gas purchases were tied to monthly index prices before the market price for those months**

[3] At p. 26. ("Moreover, high California gas prices started to receive widespread attention in December 2022.")
[4] At p. 46 (emphasis added).
[5] At p. 47 (emphasis added).
[6] At p. 44.
[7] At p. 5.

was known."[8] Yet, the same staff analysis shows that PG&E Core Gas Supply relied more on spot market purchases throughout the winter for the portion of its supply not filled by long-term contracts while SoCalGas Gas Acquisition relied more on monthly contracts, which resulted in higher gas costs for the latter. Additionally, SoCalGas Gas Acquisition made several fixed-price purchases that were higher than the later-published bidweek index. This occurred for most months during the winter and was most pronounced for January.[9]

UCAN recommends a specific inquiry into SoCalGas' purchasing practices as discussed in the White Paper. Why did SoCalGas differ from PG&E in terms of its market transactions? Is there additional information that Staff can seek that can account for the different behavior? Are there changes in regulation that can "incentivize" SoCalGas (and other actors) differently in future circumstances? Even if market "realities" may motivate or mitigate SoCalGas to continue such practices, what lessons may be turned into new directives or guidelines?

2. Spot Market Contracts.

The White Paper identified the basic approach to buying gas. PG&E Core Gas Supply and SoCalGas Gas Acquisition buy most of their gas for core customers under long-term contracts, some under monthly contracts, and the rest under spot market contracts. Monthly contracts were particularly expensive for January 2023. And both PG&E Core Gas Supply and SoCalGas Gas Acquisition had contracted for more than half of their core gas for winter 2022-2023 before October 25, 2022, the start of November bidweek. Nearly all— between 80 percent and 95 percent—of these long-term contracts were indexed to either monthly or daily indices.[10]

As pointed out, PG&E Core Gas Supply and SoCalGas Gas Acquisition differed substantially in their use of monthly vs. spot market contracts in winter 2022-2023. PG&E relied more on spot market purchases, especially for December and January, while SoCalGas relied more on monthly contracts. But, again, monthly contracts turned out to be more expensive. Setting aside long-term contracts, SoCalGas purchased most of its remaining winter 2022-2023 gas under monthly contracts, with a moderate increase in the percentage of its total gas purchased under monthly contracts during the high demand months of December, January, and

[8] At p. 5 (emphasis added).
[9] At p. 6.
[10] At p. 45.

February. **Thus, after netting out sales, SoCalGas purchased little spot market gas, often functioning as a net seller in the spot market**.[11]

Like previously suggested, UCAN recommends ongoing investigation and perhaps even an "audit" regarding SoCalGas spot market practices. While it may be understood that every type of contract comes with its own benefits and risks, greater insight and understanding must be obtained regarding SoCalGas' use of spot market contracts. We recognize that spot market contracts, while often are the most flexible, are also the most volatile. But, here during the winter season, again PG&E and SoCalGas differed in their actions. Why? As the White Paper noted, even with monthly contracts providing more flexibility and demand-responsiveness than long-term contracts, they may also be more expensive.[12] And this was the case and it contributed to the crisis This proceeding needs to shed further light into this behavior and market segment.

3. "Citygate" participation and purchases.

The White Paper continues in its review and evaluation of SoCalGas purchasing activities. "SoCalGas Gas Acquisition's trades constituted a substantial portion of the trades used to calculate monthly indexed prices at several delivery points including the SoCal Citygate. As discussed above, prices at both utilities' citygates were high in winter 2022-2023, particularly for January. Both utilities purchased less than a quarter of their gas for winter 2022-2023 at their respective citygates. However, in January, PG&E Core Gas Supply reduced its citygate usage dramatically, while SoCalGas purchased slightly more at its citygate. **SoCalGas Gas Acquisition's reliance on citygate purchases at this expensive time contributed to its high costs for January gas.**[13]

Again, the White Paper highlights that SoCalGas Gas Acquisition relied more heavily on monthly contracts, fixed-price contracts, and purchases at its own citygate, each of which contributed to higher core procurement rates in December and January.[14] Specifically, as called out in the White Paper, that while both utilities purchased less than 25 percent of their gas supply at their respective citygate locations, which is typically more costly than gas purchased outside

[11] At p. 45 (emphasis added).
[12] At pp. 21-22.
[13] At p. 48 (emphasis added).
[14] At p. 6.

of and transported into the state, SoCalGas Gas Acquisition relied more heavily on citygate purchases than PG&E Core Gas Supply.[15]

Why did SoCalGas differ in its activities? There seems to be only cursory explanation and description as to the reasons enumerated by SoCalGas regarding its citygate transactions? UCAN recommends continued investigation into this aspect of SoCalGas' purchasing practices as discussed in the White Paper.

4. Storage Levels.

One issue that quickly emerged in the wake of the crisis was storage inventory levels. The White Paper summarized that Pacific storage levels heading into winter 2022-2023 were below the previous year and the five-year average, which contributed to price volatility. **While storage levels during the spring 2022 "shoulder" season climbed above the previous year's storage levels, they were still lower than the five-year average.** By the start of the winter (November 1, 2022), storage levels in the Pacific region were notably low compared with November 1, 2021, and the five-year average.[16] The White Paper does, however, recognize and state that, in the SoCalGas service territory, storage inventory was at a six-year high on November 1, 2022 (the official start of the gas winter) despite limitations on how much gas could be stored at Aliso Canyon at the time. But storage levels on the SoCalGas system dropped quickly due to the early season cold weather that led to exceptionally high demand. Average daily demand for November, December, and January was more than 200 MMcfd over the five-year average, and the December demand profile intensified in the middle of the month.[17]

UCAN urges additional inquiry into SoCalGas storage levels as discussed in the White Paper.

II. CONCLUSION

With these comments, UCAN urges and recommends continuing investigation, with efforts to seek more data, regarding several factors cited as contributing to the High Natural Gas Prices crisis. And we do not use the term "crisis" lightly. SDG&E customers severely

[15] At p. 6.
[16] At p. 27 (emphasis added).
[17] At p. 34.

experienced the effects of the 2022 Winter skyrocketing prices. The enormous increase in natural gas charges from SDG&E amounted to a 114 percent rate hike, taking an additional $120 from a typical customer, an additional $100 million from all residents of our region.[18]

UCAN observed California's regulatory environment, its specific framework, and its incentive mechanisms seemingly broke down in the context and wake of these conditions. In this proceeding, we already opined that SoCalGas and SDG&E's parent company, Sempra, failed last Winter to do proper management to keep the prices down. We believe the key markets are too opaque and preclude the State, Commission, and public from truly learning the roles played during high natural gas price events. The secrecy surrounding transactions keeps the public in the dark about who is making a fortune off their pain; greater transparency could prevent future gouging. Accordingly, UCAN favors more disclosure, more transparency, and more information be made available to the public and Commission.

Unfortunately, UCAN sees no indication that the future, similar circumstances, and events will not repeat itself. We perceive no change in future extreme weather conditions. Nor, without new regulations, rules, and mandates from the CPUC (and other regulatory bodies) do we expect that there will be changes in market participation and behavior. But the fundamental issue remains - what can be done to protect the ratepayers and customers?

UCAN respectfully submits these Comments.

Respectfully submitted,
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Dated: July 31, 2024

[18] See, UCAN Opening Comments, at p. 2.