BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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COMMENTS OF CENTRAL VALLEY GAS STORAGE, LLC (U-915G) ON STAFF WHITE PAPER ("HIGH NATURAL GAS PRICES IN WINTER 2022-23: PART II")

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Jennifer Garlock
Sheppard Mullin Richter & Hampton LLP
350 South Grand Avenue, 40th Floor
Los Angeles, California 90071
Telephone: (213) 620-5570
Email: jgarlock@sheppardmullin.com

Attorneys for Central Valley Gas Storage, LLC

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I. INTRODUCTION.

Pursuant to the Administrative Law Judge's Ruling Admitting Staff White Paper Part II Into the Record and Seeking Comments, issued on June 5, 2025 ("ALJ Ruling"), Central Valley Gas Storage ("CVGS") submits these comments on the white paper entitled "High Natural Gas Prices in Winter 2022-23: Part II – A Staff White Paper Supporting CPUC Investigation I.23-03-008" ("White Paper II"). The White Paper II seeks to address two questions: (1) is there any additional information that the Commission should collect or examine to further understand market dynamics that caused or contributed to the gas price spikes; and (2) what are the gas and electric market interactions that affected, during the gas price spikes, and affect, currently, costs to consumers that the Commission should examine and/or investigate?[1]

As discussed further below, the White Paper II identifies a number of causes that contributed to the high natural gas prices in winter 2022-23 and describes changes over time to, and areas for potential investigation in connection with, the Independent Storage Provider ("ISP") market in northern California. Specifically, the White Paper II asserts that the Natural Gas Storage Strategy has "significantly changed" the storage market because PG&E's Core Gas

[1] White Paper II at 6.

Supply must purchase ISP storage, and ISPs may be able to estimate how much storage PG&E is required to purchase from them and price contracts above competitive market rates.[2] The White Paper II proposes to address this speculative concern with further inquiry into: (1) ISPs ownership of storage capacity, contract pricing, and market concentration; (2) ISP tariff structure; (3) a requirement for ISPs to publicly report daily inventory levels; and (4) a cost-of-service study to determine if the rates charged by ISPs are justified and reflect a competitive market or an imbalance in market power.[3]

However, the White Paper II provides no analysis demonstrating a link between the causes of the price spikes in the winter of 2022-2023 and the proposed changes to the ISP market that are recommended for consideration. In fact, quite the opposite is true; the ISP market functioned as intended despite the numerous identified causes of the 2022-23 winter price spikes. The current ISP market structure remains competitive and vital to ensuring stable costs and gas supply reliability for storage customers in northern California. There is no valid reason for the Commission to undertake the inquiry suggested in the White Paper II.

II. THE COMPETITIVE ISP MARKET FUNCTIONED NORMALLY DURING THE WINTER OF 2022-23 AND DID NOT CONTRIBUTE TO THE ACUTE PRICE INCREASES.

The White Paper II explains that the winter price spikes of 2022-23 resulted from several well documented and substantive causes. None of the identified causes for winter 2022-2023 price spikes, however, are related to ISP market performance, tariffs, or market design, nor could such causes be remedied by further inquiry into the ISP market structure or rates. Despite the

[2] *Id.* at 28-29.
[3] *Id*. at 29.

abnormalities of winter 2022-23, the ISP market functioned predictably and to the benefit of customers.

A. White Paper Part I and White Paper Part II Firmly Established the Causes of the Winter 2022-23 Price Spikes, None of Which are Related to ISPs Market Activities.

Unlike previous winter seasons, numerous unpredictable events burdened natural gas prices in winter 2022-23. Most dispositive here, physical constraints on the natural gas pipeline system significantly reduced the available supply throughout winter 2022-23. For example, noncore customers had no direct access to storage in Southern California due to the limitations on the Aliso Canyon gas storage fields and the lack of ISPs in the region.[4] Without access to local area storage, Southern Californian natural gas customers were unable to secure and store supplies in that market area at a lower cost in spring and summer to protect against price spikes and supply constraints during the winter.[5] The Commission Staff's White Paper Part I[6] correctly noted numerous other physical constraints, including that "the total capacity reduction from El Paso's outages significantly impacted how much supply was able to come into Southern California and particularly SoCalGas' Southern System."[7] Northern California was similarly burdened by physical delivery constraints from El Paso's North Mainline in December 2022 and

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[4] *Id*. at 13, fn. 23; *Id*. at 51 & 54; Southern California customers have the ability to procure ISP storage combined with firm transportation on PG&E's backbone system, within limitations, as well as the ability to procure storage upstream of the Kern and El Paso pipelines to secure physical supply when those pipelines are fully capable of flowing, but those options became ever more competitive with the Aliso Canyon Withdrawal Protocol in effect.

[5] *Id*. at 13.

[6] I.23-03-008, High Natural Gas Prices in Winter 2022-23: Part I (filed July 2, 2024) (hereinafter "White Paper Part I").

[7] White Paper Part I at 31 ("There was a pipeline capacity reduction of approximately 739 MMcfd due to El Paso North Mainline maintenance throughout December 2022 as well as a roughly 500 MMcfd capacity reduction throughout January 2023.104 Coupled with the 591 MMcfd of capacity loss from the El Paso Line 2000 outage").

January 2023 "which reduced the total delivery capacity by roughly 1,330 MMcfd."[8] The consequences of these physical constraints can be seen in SoCal City Gate pricing as early as August and September of 2022.[9]

Beyond the physical constraints discussed above, California experienced unprecedented demand for natural gas resulting from an abnormally cold winter[10] with historically low temperatures,[11] reduced hydropower electricity imports from the Pacific Northwest,[12] and Winter Storm Elliot (December 21-26, 2022), which severely reduced gas production and raised gas prices across the country resulting in high prices despite declines in local demand outside of California.[13] This substantial increase in demand in California resulted in an unprecedented reduction in ISP storage inventory from November 2022 through December 2022.[14] California was already fighting a losing battle because ISPs began November 2022 with approximately 10% less combined inventory than the prior year, and in December that differential grew to 20% when compared to the prior year.[15]

Taken together, unpredictable events unrelated to ISPs market performance created the market conditions resulting in the winter price spikes of 2022-23. This is further evidenced by

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[8] *Id*. at 5.
[9] *Id*. at 31.
[10] *Id*. at 4 ("Winter 2022-2023 didn't just start cold; it stayed cold. It was the coldest winter in the PG&E and SoCalGas service territories in the last 10 years measured by both average temperatures and heating degree days (HDDs)").
[11] *Id*. at 40 ("Consistent with cold temperatures, core gas demand in the PG&E and SoCalGas territories in winter 2022-2023 was the highest in 10 years.").
[12] White Paper II at 35 (California was forced to rely heavily on gas-fired generation in the CAISO market largely due to reduced electricity imports from the Pacific Northwest as a result of drought, resulting in increased natural gas withdrawals and contributing to increased wholesale electricity costs).
[13] White Paper Part I at 33-34; White Paper II at 17-18.
[14] White Paper Part I at 36.
[15] *Ibid*.

the natural gas price stabilization immediately after significant physical delivery limitations were remedied in February and March of 2023.[16]

B. The ISP Market Functioned Properly Despite the Unusual Circumstances of Winter 2022-23.

Unlike the unusual circumstances described above, the ISP market in northern California functioned normally and efficiently from summer 2022 through winter 2023. As the White Paper II identified, customers typically purchase and inject natural gas into storage "when prices are lower in the spring and summer for withdrawal and use during the high-demand winter season."[17] Consistent with this pattern, CVGS's inventory capacity was at 94% full on December 1, 2022.[18] Over the course of winter 2022-23, CVGS's customers withdrew a significant volume of this inventory (74 percent across all ISPs) for use.[19] Moreover, withdrawal rates declined in mid-March as temperatures rose and market conditions stabilized in alignment with previous seasonal cycles.[20]

Notably, the White Paper Part I Daily Core Demand analysis (Table 2), indicates that ISPs functioned predictably and to the benefit of all gas customers during the winter of 2022-23. For example, in February and March of 2023, materially colder weather drove significantly higher daily demand than prior 10-year averages in PG&E's territory.[21] In particular, March 2023 experienced 35% higher demand than the 10-year average, and natural gas prices remained

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[16] White Paper II at 18-19.
[17] *Id*. at 13.
[18] White Paper Part I at 36.
[19] White Paper II at 19.
[20] *Id*. at 14.
[21] White Paper Part I at 41 (The February Average Demand 10-year average is 1,139 MMcfd compared to the winter 2022-23 average of 1,413 MMcfd equals a 13.5% increase; the March Average Demand 10-year average is 915 MMcfd compared to the winter 2022-23 average of 1,244 MMcfd equals a 35% increase.).

relatively predictable and stable despite prior acute price fluctuations in the natural gas markets during December 2022 and January 2023.[22] Uncoincidentally, the significant pipeline constraints discussed above (e.g. El Paso North Mainline maintenance) were resolved immediately prior to March 2023[23] when prices stabilized,[24] establishing that the winter price spikes of 2022-23 were caused by physical constraints rather than by ISP market activity. In short, the White Paper II identified a series of unpredictable events that caused a simultaneous increased demand for natural gas and reduction of supply that resulted in acute high gas prices during winter 2022-2023. In contrast, the ISP market in northern California during this period functioned predictably and appropriately, buffering storage customers against the price spikes that occurred. The White Paper II does not identify any link between the ISP's market structure or activities and the natural gas price spikes in winter 2022-23.

III. THE NORTHERN CALIFORNIA NATURAL GAS STORAGE MARKET HAS BEEN, AND REMAINS, A COMPETITIVE MARKET.

None of the causes of the natural gas price spikes in winter 2022-23 identified by the White Paper Part I or the White Paper II would have been prevented or mitigated if the northern California ISPs were regulated differently. Moreover, the White Paper II suggests the analysis of the ISP market in northern California was undertaken because of parties' comments on White Paper Part I, but cites comments that questioned storage usage in southern California, not the functioning of the ISP market in northern California.[25] Despite this, the White Paper II raises

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[22] White Paper II at 18-19 ("on February 15, 2023 prices fell significantly to around $5-$8/MMBtu, yet withdrawals still showed periodic peaks.").
[23] White Paper Part I at 3; White Paper II at 18-19.
[24] White Paper Part I at 32, Figure 111 (Winter 2022-23 SoCal Citygate and PG&E Citygate Average Daily Prices).
[25] White Paper II at 6, fn. 4 (referring to Sierra Club Opening Comments on White Paper I. which fail to reference the northern California natural gas storage market).

open-ended questions about whether the ISP market in northern California is competitive and whether the Commission should undertake further inquiry regarding ISP's ownership of storage capacity, contract pricing, and market concentration, and whether the ISP's market-based rate structure remains appropriate. Contrary to the speculative concerns in the White Paper II, the ISP market has been, and remains, a competitive market that provides significant value to northern California gas customers. As such, an additional inquiry into and consideration of fundamental changes to ISP market design is not warranted.

A. PG&E's Natural Gas Storage Strategy has not Resulted in an Uncompetitive Natural Gas Storage Market.

The White Paper II asserts that the Natural Gas Storage Strategy, approved in 2019, has "significantly changed" the storage market because PG&E's Core Gas Supply must purchase ISP storage, and "ISPs can estimate *within a range* how much storage PG&E is required to purchase from them" (emphasis added) and potentially price contracts above competitive market rates.[26] While the minimum amount of storage PG&E is required to purchase from ISPs is specified by Commission decision, the range is very wide because the maximum amount PG&E is *allowed* (not required) to purchase was revised to be formulaic and dependent on confidential information not available to ISPs.[27] The only time any ISP actually knows how much storage

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[26] *Id*. at 28-29.

[27] D.24-03-002 adopting the All-Party Settlement for the PG&E 2023-2026 Gas Transmission and Storage Cost Allocation and Rate Design, Appendix A All-Party Settlement Agreement, Joint Stipulation 1, at p.15 sets the minimum storage inventory capacity for Core Gas Supply as 10,000,000 Dth and the maximum inventory capacity formula as Max Inventory = (Storage Withdrawal Requirement/0.061 Withdrawal Ratio)*2; A.21-09-018, Pacific Gas and Electric Company 2023 gas transmission and storage cost allocation and rate design prepared testimony (public version), Chapter 7 Attachment A Redacted (Confidential Storage Information), Table 7-4, pg. 7-AtchA-1 (September 30, 2021) (the required Independent Storage Withdrawal to meet the Reliability Standard is redacted and is also otherwise unknown to the ISPs. If Citygate Supply is 0 MDth/d and 100% of core demand is served by PG&E Core Gas Supply, the maximum inventory capacity is 36,065,574 Dth.).

capacity PG&E Core Gas Supply wishes to procure is during its RFO process, similar to when any other customer approaches an ISP to contract for a natural gas storage product.

ISPs also do not know what volumes PG&E has already contracted with other ISPs, and PG&E has the discretion to adjust its Natural Gas Storage Strategy.[28] CVGS does not discuss market sensitive information, including gas storage contracts, with its competitors. When a CVGS bid does not win in a PG&E Core Gas Supply RFO process, CVGS learns only the name of the winning storage provider, but nothing else about the contract pricing, product type, quantity, or other terms, from the redacted advice letter submitted to the Commission. This is the scope of limited information available to all market participants after every PG&E Core Gas Supply RFO process.[29]

Furthermore, PG&E's Core Gas Supply represents only a small portion of total ISP capacity. For example, CVGS estimates that PG&E's Core Gas Supply purchases less than a quarter of total available ISP storage capacity.[30] The ISPs compete with each other for this small share of the overall storage market and offer a wide range of prices depending on when the

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[28] The Natural Gas Storage Strategy was adjusted in the 2023-2026 GT&S CARD and further adjustments are proposed in the 2027-2030 GRC.

[29] CVGS notes that even the identity of the winning provider for the most recent gas storage contract was redacted in Advice Letter 4973G.

[30] A.21-09-018, Pacific Gas and Electric Company 2023 gas transmission and storage cost allocation and rate design prepared testimony (public version) Chapter 7 Attachment A Redacted (Confidential Storage Information), Table 7-4, pg. 7-AtchA-1 (September 30, 2021) (For the purposes of this estimation, CVGS makes assumptions that Citygate Supply is 330 MDth/d as listed for the Current time period (2022) and that the percent of core demand served by Core Transport Agents is 18% as it was in 2019 (D.19-09-025 at p. 79). The calculated Proposed (2023+) Independent Storage Withdrawal served by PG&E Core Gas Supply is 631 MDth/d, allowing PG&E Core Gas Supply to purchase a maximum storage inventory capacity of 20,701,639 Dth. This estimate is 16% of ISP storage (total 130.5 BCF, or approximately 130,500,000 Dth), and is very uncertain because other reasonable assumptions lead to higher or lower estimates for maximum storage inventory capacities and PG&E Core Gas Supply may not purchase its maximum allowable capacity.).

purchase occurs (seasonal pricing), the length of the contract, the product type, and the unique operating characteristics of each ISP, among other factors.[31] This is reflected in the wide variety of prices that PG&E observed in its prior comments in this proceeding, indicating that ISPs are pricing PG&E Core Gas Supply contracts based on complex market dynamics and unique operating characteristics of each ISP's facility.[32]

In addition, ISP contracts have been continually reviewed and approved by the Commission under the Advice Letter mechanics adopted in Appendix I of Decision 19-09-025. Prior to submitting an ISP gas storage contract for Commission approval, PG&E must confer with Cal Advocates and TURN to determine whether the offer is reasonably priced, will benefit core customers, and is necessary to meet the Reliability Standard.[33] The mechanisms implemented by the Commission in Decision 19-09-025 regarding the necessary amount of storage reserved for PG&E core customers and the cost thereof are operating as intended. There has been no information presented in this proceeding that PG&E Core Gas Supply has inadequate access to ISP storage services or that such services are priced improperly. In fact the opposite is true. As TURN witness Florio testified in the recent PG&E GT&S CARD proceeding: "While the specific figures are confidential, the storage capacity that Core Gas Supply has purchased

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[31] White Paper II at 28 ("Each ISP offers firm storage services with guaranteed capacity, and in some cases, interruptible or short- term storage options. Charges can generally include costs for the injection and withdrawal of gas, monthly demand charges, and additional fees like fuel charges, which are often calculated based on actual usage or fixed percentages. While generally similar in structure, the exact pricing methods and service options differ across ISPs, with some offering higher charges depending on the type of service and storage demand.")

[32] *Comments of Pacific Gas and Electric Company (u 39-m) on Questions in Attachment A of the Administrative Law Judge's Ruling Issuing First Amendment to Scoping Memo and Seeking Comments*, pg. 6 ("However, PG&E Core Gas Supply's most recent solicitation for storage saw ISP rates ranging from 35% to 230% of the average rate in this solicitation.").

[33] D.19-09-025 Appendix I at 2.

from ISPs in recent years has cost much less than PG&E is proposing to charge for the capacity it 'assigns' to Core Firm Service".[34]

B. The CPUC has Recently Affirmed that the Natural Gas Storage Market Remains Competitive.

The Commission has confirmed the proper functioning of the ISP storage market numerous times since the winter of 2022-23. In 2023, for example, the Commission concluded that natural gas storage facilities are currently "necessary for reliability and cost management at this time,"[35] because they continue to "play a crucial role in protecting customers from reliability issues and adverse rate impacts in the electricity and gas sectors."[36] Earlier this year, the Commission approved the sale of the Pleasant Creek storage facility from PG&E to Pleasant Creek Gas Storage Holdings, LLC ("Pleasant Creek LLC") finding that "Pleasant Creek LLC would be a comparatively small, new entrant in the competitive independent natural gas storage services market."[37] The Commission stated that it reached this conclusion because "the same market circumstances and facts" exist today as existed in 2010 when CVGS was granted authority to charge market-based rates.[38]

Although the White Paper II asserts that PG&E's Natural Gas Storage Strategy, which was approved by the Commission in 2019, has fundamentally changed the nature of the natural gas storage market, it fails to identify anything that occurred that was not considered when the Commission approved the Natural Gas Storage Strategy. In fact, as discussed above, during winter 2022-2023, the ISP market functioned as expected to the benefit of natural gas customers

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[34] A.21-09-018, Exhibit No. TURN-1, Prepared Direct Testimony of Michel Peter Florio, Submitted on Behalf of The Utility Reform Network on August 8, 2022 at 42.
[35] D.23-12-003 at 37.
[36] *Ibid*.
[37] D.25-04-032 at 35.
[38] *Id*. at 37 (citing D.10-10-001).

in northern California. Accordingly, there is no basis to undertake further inquiry at this time into the operation of the ISP market in northern California.

C. Reactive Policy Change Threatens Cooling a Competitive Natural Gas Storage Market.

Without providing any analysis or evidence that the ISP market contributed to the winter price spikes of 2022-23, the White Paper II proposes further inquiry into: (1) ISPs ownership of storage capacity, contract pricing, and market concentration; (2) ISP tariff structure; (3) a requirement for ISPs to publicly report daily inventory levels; and (4) a cost-of-service study to determine if the rates charged by ISPs are justified reflect a competitive market or an imbalance in market power.[39] Before the Commission entertains any such proposal, it would need to consider the effects that such a potential dramatic policy shift may have on ISPs, the investors that have supported the ISP market and potential new entrants into the California energy market.

When the Commission first authorized ISPs in 1993, it created a market where the risk of lost private investment is traded for the authority to charge market based rates. Customers benefit by avoiding the risk of cost overruns and by procuring competitive services, as ISPs refine them over time to better suit the customers' needs. Implicit in that intentional market structure design choice is the obligation to regulate the market in a predictable way so that the benefits of 32 years of private investment are not dissolved due to speculative concerns. Several ISPs, including CVGS, entered and continue to invest in the ISP market based on the promise of this competitive market design. In fact, the ISP program was so successful that the Commission found it just and reasonable for PG&E to reduce its storage revenue requirement by $1 billion over 20 years through elimination of its commodity price service and adoption of the Natural

[39] White Paper II at 29.

Gas Storage Strategy, relying on ISPs to serve the merchant storage needs of core and noncore customers alike. Were the Commission to consider abandoning the adopted natural gas storage market structure, which is performing as it was intended to perform both initially and under the Natural Gas Storage Strategy, it would send a message to the market that the Commission's policies may not be relied upon for the long term. CVGS cautions that unsubstantiated and reactive policy making by the Commission may have irreparable adverse consequences on current market participants and potential future investors.

IV. CONCLUSION.

The White Paper II (and White Paper Part I) analysis of the root causes of the winter 2022-23 natural gas price spikes reveal factors that are unrelated to ISPs participation in the natural gas storage market. The ISP market remains competitive, market-based rates remain reasonable, and at this time there is no basis to further analyze the regulatory framework around ISPs. CVGS appreciates the opportunity to present these opening comments and looks forward to further participation in this proceeding.

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Respectfully submitted,

By: */s/ Jennifer Garlock*

Jennifer Garlock
Sheppard Mullin Richter & Hampton LLP
350 South Grand Avenue, 40th Floor
Los Angeles, California 90071
Telephone: (213) 620-5570
Email: jgarlock@sheppardmullin.com

Attorneys for Central Valley Gas Storage, LLC