BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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

JOINT COMMENTS OF WILD GOOSE STORAGE, LLC AND LODI GAS STORAGE, L.L.C. ON STAFF WHITE PAPER PART II

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July 7, 2025

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In accordance with the Administrative Law Judge's June 5, 2025 ruling admitting Part II of the staff white paper into the record and providing the opportunity for party comments, Wild Goose Storage, LLC and Lodi Gas Storage, L.L.C. submit their opening comments. The white paper's concern that the independent storage market is no longer competitive is based on a fundamental misunderstanding of how storage contracts are priced. The white paper also imputes outsized importance to PG&E's 2019 Natural Gas Storage Strategy, which did not alter the independent gas storage market or reduce PG&E's ability to negotiate competitive contracts. The independent gas storage market has functioned as designed—competitively—for over two decades, with consistent Commission determinations that none of the storage providers have market power. There is no justification in the record of this proceeding, nor anywhere else, for the white paper's recommendations that the Commission consider unwinding the independent storage market.

I. COMMENTS ON WHITE PAPER, PART II

Much of the white paper's analysis and conclusions regarding the state of the natural gas market in winter 2022/2023 appear accurate, but the analysis and recommendations based on staff's review of independent storage provider (ISP) contracts are misplaced. The focus of this proceeding is the causes and contributing factors to the gas price spikes in winter 2022/2023. As

the record and Part I of the white paper make clear, the independent storage market did not contribute to the price spikes; to the contrary, the record affirms that gas storage mitigates price fluctuations and improves reliability. There is no indication in Part I of the white paper, nor elsewhere in the record, that the independent storage market was functioning in a non-competitive manner during winter 2022/2023.

Notwithstanding that fact, Part II of the white paper relies on comparisons between independently negotiated core and noncore ISP storage contracts—which are not apples-to-apples—as the basis for its inference that the independent gas storage market may no longer be competitive.[1] The white paper's analysis and recommendations do not account for the role that independent storage plays in the natural gas market, the nuances of PG&E's Natural Gas Storage Strategy (NGSS), the policy and principles inherent in market-based and cost-based ratemaking, or the realities of gas storage contract negotiations. PG&E's NGSS did not fundamentally alter the Northern California gas market such that PG&E can no longer contract for storage at competitive terms. California's gas market has changed over the last decade due to forces larger and more impactful than the NGSS, but those changes have not reduced participants' bargaining power. The independent natural gas market remains competitive and the ISPs' ability to use market-based rates should be preserved.

A. Gas Storage Performs Critical Price Management Functions

Part I of the white paper accurately states that gas storage supplements the flow of gas supply and provides the following critical services: the ability to meet daily and seasonal demand variation for reliability purposes, and the opportunity to mitigate price spikes by providing an

[1] White Paper, Part II, pp. 27–29.

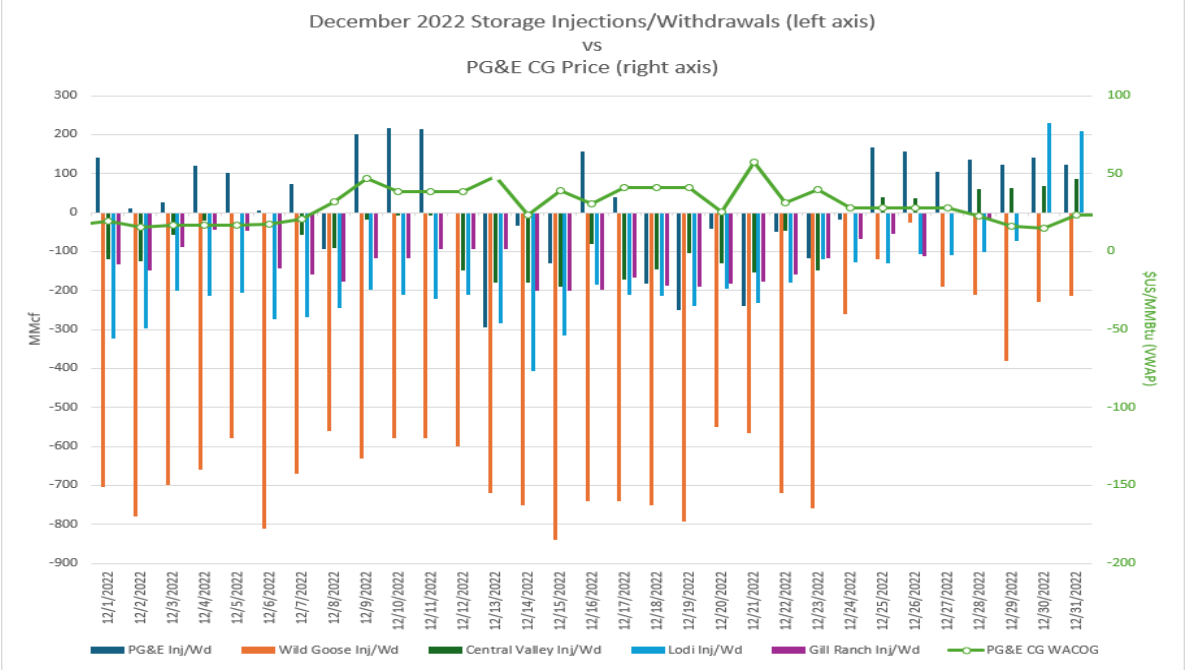
alternative to pipeline supply when gas commodity prices are high.[2] Gas commodity price volatility correlates to seasonal demand and weather-related events. Industry participants utilize defined summer (April–October) and winter (November–March) periods. Storage services are typically contracted before winter during the prior year, with demand fees set using transparent methods such as forward curves, locational basis differentials, volatility, cost of carry, and other contract terms specific to storage. During the contract term, storage customers have control over their injections and withdrawals. Gas commodity price fluctuation does not affect storage fees but often influences customer behavior. By adding supply during peak periods, storage helps reduce price volatility and limits reliance on high-priced spot markets. As Wild Goose and Lodi have noted previously, were it not for storage, California would have to out-bid other western states to ensure sufficient gas supply during high-demand events, which would significantly increase customers' gas bills.[3]

Further evidencing the benefit of storage, during December 2022, when prices were at their highest for the winter, all of the ISPs were on heavy withdrawal relative to their facility size throughout December, thereby providing significant additional supply. The table below shows injections and withdrawals of the ISPs in December 2022.[4] Only PG&E was injecting at this time.

[2] White Paper, Part I, p. 10.

[3] Comments of Wild Goose and Lodi on the Assigned Commissioner's Ruling Issuing First Amendment to Scoping Memo and Seeking Comments, pp. 4–5 (June 10, 2024).

[4] Data from ICE NGX (www.ice.com/ngx) and PG&E Pipe Ranger.



It should also be noted that some of the highest PG&E cash prices (December 20–21, 2022) were during unplanned maintenance activities on PG&E's system that restricted ISP withdrawal capabilities. Storage plays a critical role in the price of natural gas. But that role is not based on the pricing of storage contracts, it is based on the injection and withdrawal strategy employed by customers holding the storage contracts.

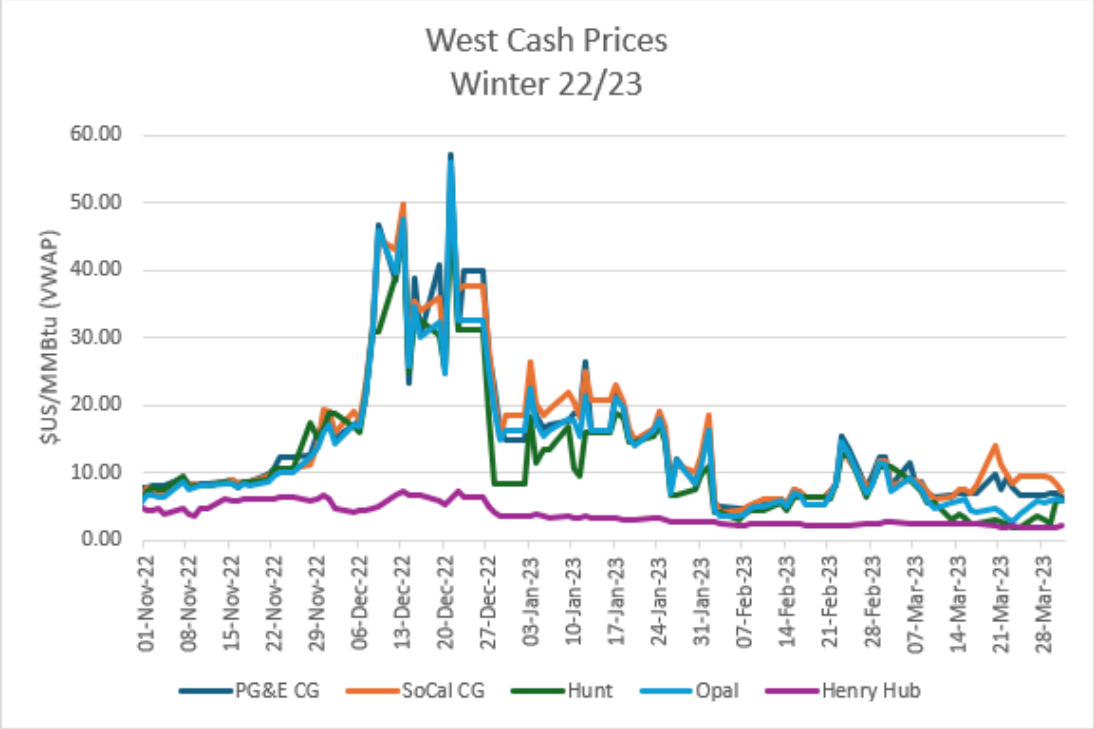
B. The OII Focus is the 2022/2023 Price Spikes

The first part of the white paper correctly reports that hot summer temperatures in summer 2022 raised gas prices above projected winter prices, which did not incentivize noncore customers to inject gas into storage as a price hedge for the upcoming winter.[5] In hindsight, of course, we know that gas prices that winter were not low. The weather events and supply deficits occurring during winter 2022/2023 were a west-wide phenomenon, not a Northern

[5] White Paper, Part I, pp. 3–4.

California-specific issue. The weather itself is a major factor in demand and corollary price spikes, and the winter of 2022/2023 was uniquely cold.

The second part of the white paper shifts focus from the event in question to "low" storage inventories and ISP storage pricing, but provides no support that rate-regulation of ISPs or other changes to their regulatory requirements would have in any way mitigated the price spikes during this period.[6] This was not a Northern California-only issue. Gas prices surged across the western continent. Looking at the trading points, Hunt and Opal, in the figure below shows that the price spikes themselves were the result of broader weather, supply, and microeconomic factors that affected all industry participants and consumers in the entire western continent.[7]



[6] White Paper, Part II, pp. 13–14, 25–29.

[7] Data from ICE NGX.

The winter 2022/2023 price spikes were not a California-specific issue, and an inquiry into the pricing of storage contracts in Northern California is not going to lead Commission staff to actual answers about why the price spikes occurred during this period.

C. Large-Scale Changes Affecting the Natural Gas Market

Part II of the white paper incorrectly focuses on PG&E's NGSS as a sea change that may warrant unwinding the independent storage market. The facts relating to the NGSS show that it does not comprise a significant enough portion of the storage market to change its competitive nature. In the last decade, other events have reshaped the natural gas market spreads for summer and winter, which form the basis for how gas storage is priced. The fact that certain market dynamics have changed, however, does not mean that the market is not competitive.

The most significant driver of change to the natural gas market in California is the 2015 Aliso Canyon leak, which led to the CalGEM regulations requiring tubing and packer installation on all storage wells. As noted in Part I of the white paper, the tubing and packer requirements reduce the withdrawal capacity across all storage facilities and thereby impacts overall well deliverability for the region. Additionally, increased frequency of routine inspections results in more wells being taken out of service, further affecting deliverability.[8] The CalGEM regulations increased costs for all gas storage operators, through compliance costs for the tubing and packer installation and, in some cases, the costs of drilling new wells to restore lost withdrawal capacity. PG&E passed those costs onto its customers in rates.[9] Conversely the ISPs's shareholders are

[8] White Paper, Part I, p. 38.

[9] See, e.g., D.23-11-069, pp. 163–170 (discussing PG&E's 2023 GRC forecasts for the costs of CalGEM compliance and inspections and for drilling new wells to offset capacity reductions from CalGEM requirements); see also White Paper, Part I, p. 14 (stating that CalGEM regulations have increased the cost of storage operations).

fully at risk for operational costs; operating costs and facility performance are factored into contract negotiations for ISPs. It should be noted that, as a general matter, PG&E's costs to install tubing and packer are significantly higher than Wild Goose's and Lodi's costs to perform the same work.[10] Moreover, the industry-wide changes to storage withdrawal capability feed into the broader supply-and-demand equation that affects price and spreads, and have therefore changed storage contract pricing. But those changes have not altered the competitive nature of the independent storage market.

D. PG&E's NGSS Did Not Fundamentally Alter the Storage Market

The NGSS implemented PG&E's decision to stop using its storage assets for firm storage-based price management services and instead use them to provide reliability services like managing unplanned outages and inventory fluctuations.[11] PG&E proposed to use its own storage assets to provide Core Firm Service and meet a portion of its reliability standard supply requirements; PG&E would also downsize its storage assets by selling or decommissioning the Los Medanos and Pleasant Creek storage fields, leaving PG&E with only McDonald Island.[12] The combined impact of PG&E's downsizing would require the ISPs to collectively provide 863 MMcf/d of storage for PG&E Core Gas Supply, while the remaining 3,753 MMcf/d would be provided by a combination of PG&E's own storage and flowing supply on the transmission

[10] Wild Goose and Lodi Opening Comments on Amended Scoping Memo, p. 5, fn. 2.

[11] D.19-09-025, p. 22. PG&E also proposed to reclassify 51 Bcf of working gas to base gas at McDonald Island. At the en banc earlier in this proceeding, PG&E described that reclassification as an "accounting adjustment" rather than a change to the total physical gas in storage; PG&E also confirmed that, in the decade before it proposed the NGSS, it only dipped into that 51 Bcf twice. (White Paper, Part I, pp. 36–37.)

[12] D.19-09-025, pp. 22–23.

system.[13] The ISPs' collective supply commitment totaled approximately 19% of PG&E's 4,616 MMcf/d peak day demand forecast for all customers and approximately 35% of PG&E's 2,493 MMcf/d peak day demand forecast for the core alone.

When proposing the NGSS, PG&E acknowledged that removing approximately 570 MMcf/d of storage withdrawal capacity, and the related injection and inventory capacities, from the market could increase the summer–winter commodity forward price spread at PG&E Citygate, but PG&E believed the potential increase would be small because there would still be 3,150 MMcf/d of withdrawal capacity in Northern California.[14] PG&E also stated its belief that "the open market should rationalize the above price issues," and that any resulting costs would be "orders of magnitude smaller" than the $1.5–$2.6 billion present value revenue requirement savings PG&E proposed to achieve by downsizing its storage holdings.[15] PG&E's analysis was reasonable: the cost of contracting for storage would provide a net savings to customers, and the competitive storage market is robust enough to respond rationally to changes in individual participants' needs.

PG&E's NGSS is not static. PG&E has control over the NGSS and has made changes in each subsequent general rate case in response to conditions on its system and various demand and cost forecasts for the rate case period. Less than two years after the Commission initially approved the NGSS, PG&E reversed its position on the Los Medanos storage facility and decided to retain it, thereby adding 184 MMcf/d of capacity to PG&E's storage holdings.[16]

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[13] A.17-11-009, PG&E Direct Testimony, ch. 11, Attachment 1, Memorandum of Understanding, p. 11-Atch1-3.

[14] A.17-11-009, PG&E Direct Testimony, ch. 11, p. 11-30.

[15] *Id.* at p. 11-31.

[16] A.21-06-021, PG&E Direct Testimony, Exh. PG&E-3, ch. 7, pp. 7-46, 7-50 to 7-52.

PG&E argued that retaining Los Medanos was a more cost-effective option to preserve storage capacity than drilling a large number of new wells at McDonald Island to offset the capacity reductions caused by the CalGEM tubing and packer requirements. PG&E also increased its core firm storage supply forecasts by approximately 33%, from 307 MMcf/d to 411 MMcf/d, based on projections of colder than normal temperatures.[17] In its current general rate case, PG&E now proposes to change Core Firm Storage rights from a fixed to a variable withdrawal curve that would be a function of inventory rather than a flat amount.[18] The new Core Firm Storage program would include 16.5 MMdth of inventory capacity, up to 475 MDth/d of firm withdrawal rights for December–February, up to 238 MDth/d of firm withdrawal rights for November–March, up to 60 MDth/d of firm injection rights for April–October, and negotiated as-available counter-cyclical injection and withdrawal.[19] This new program, if approved, will affect PG&E's storage needs and will be relevant to the contracts it negotiates with the ISPs.

The white paper treats the NGSS as a program so significant that it may have robbed PG&E of its ability to negotiate competitive storage contracts. The NGSS sets operational parameters for PG&E but does not dictate PG&E's procurement strategy. It should also be noted that PG&E has the opportunity to revise the NGSS in each rate case, and in fact does; PG&E's core storage needs are subject to change at its own discretion every four years. This is not a rational foundation on which to propose examination of sweeping changes to the independent gas storage market.

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[17] *Id.* at p. 7-53; see also PG&E Workpapers, Exh. PG&E-3, p. WP 7-52.

[18] A.25-05-009, PG&E Direct Testimony, Exh. PG&E-3, ch. 9, pp. 9-80 to 9-81.

[19] *Id.* at p. 9-81.

E. The Price of Storage is Driven by Complex Factors Present at the Time the Contract is Negotiated

PG&E's storage contract terms are the direct result of PG&E's specified withdrawal capacity, as well as a multitude of factors specific to the time the contract is negotiated. PG&E's firm winter capacity requirements are a major factor in the determining the price of storage service, not its bargaining power or dependence on ISPs. For illustrative purposes, consider a scenario where an ISP facility can deliver 1 Bcf of gas at a withdrawal rate of 8,500 Dth per day. This means it will take 117 days to withdraw 1 Bcf at a steady rate. This is the baseline performance of the storage facility. If a storage customer would like to have the same storage capacity of 1 Bcf but wants a peak withdrawal of 189,000 Dth per day, that means that all of its gas is delivered in 16 days. The capacity has not changed but, in order for the storage facility to deliver at such a high withdrawal rate, the storage operator will have to ensure that it holds enough gas in inventory to support this customer request for peak withdrawal, which limits the storage operator's ability to enter into other contracts. The requirement to hold additional inventory to support the higher deliverability is an opportunity cost that is factored in determining the price of the contract. The 1 Bcf contract requires approximately 22 Bcf of inventory to manage the customer's higher deliverability, which is obviously a significant cost. This example shows that not all 1 Bcf capacity storage contracts are equal and that deliverability requirements must be considered when comparing storage contracts.

Beyond deliverability requirements, storage pricing is heavily influenced by the summer–winter spread, which can fluctuate widely due macroeconomic and microeconomic factors. In the past decade the PG&E Citygate spread has ranged from under $0.30/Dth to over $2.00/Dth, reflecting the market's dynamic nature.

A storage facility's unique operating characteristics also influence storage deliverability and pricing. Each storage field has its own injection and withdrawal rates, cyclability, technologies, and reliability and performance parameters. That means that every facility will offer different terms and pricing for the same customer requirements because the requested capacity, injection, and withdrawal rates will occupy different percentages of the facility's available capacity. It is theoretically possible for a customer to require such a high withdrawal rate that it utilizes 100% of a storage facility's capacity, even though the contract is for significantly less than 100% of the facility. Such an arrangement must be priced to account for the lost contracting opportunities with other customers.

Each storage contract is the product of a complex ecosystem of variables specific to the time the contract was negotiated. The PG&E core storage contracts that Commission staff view as having less-than-competitive rates must be examined in the context of the terms PG&E required and how they relate to the ISPs' operating characteristics. That examination must also include the relevant terms of the noncore contracts that staff examined as a comparison.[20] PG&E's requirements for its core and noncore contracts are different, and other noncore customers have their own specifications; staff cannot accurately gauge whether a core storage contract is priced competitively by reviewing the terms of noncore contracts. PG&E's core storage contract requirements generally specify significant withdrawal capacity. Withdrawal capacity (or "rate"), as explained above, requires the facility hold rate management gas in order to deliver the required withdrawal rates. Rate itself is a metric that, all other factors being equal, is most relevant for comparing contract pricing.

[20] White Paper, Part II, p. 28.

F. The Independent Storage Market Remains Competitive

The white paper identifies four areas for further inquiry that relate to ISP operations, rate structures, and regulatory requirements.[21] The four identified areas, and the supporting discussion preceding them, are based on faulty premises regarding the mechanics of the independent storage market and the characteristics of the ISPs' contracts with PG&E Core Gas Storage. The ISPs have a combined capacity of 130.5 Bcf and a 2,300 MMcf/d maximum withdrawal capacity.[22] The 863 MMcf/d the ISPs have collectively committed to PG&E core customers comprises approximately 38% of their combined withdrawal capacity. With four established ISPs and one new market entrant to serve that portion of core demand, PG&E's core contracts are not large enough to change the competitive nature of the storage market. The Commission should not expend significant time and resources to explore undoing a market that is functioning as intended. As discussed above, PG&E's six-year-old NGSS does not change that fact.

1. The ISPs Lack Market Power

The record of this proceeding contains ample discussion of the Commission's creation of a competitive gas storage market, consistent with state policy, and its consistent determinations that market-based rates are appropriate for all five certificated ISPs based on the fact that each ISP lacks market power. There is no evidence in this docket that the ISPs have developed market power with respect to each other or with respect to PG&E. The Commission has reviewed the ISPs' operations in a variety of contexts over the last two-plus decades and has

[21] White Paper, Part II, p. 29.

[22] I.23-03-008, Wild Goose and Lodi Opening Comments on the OII, p. 2. This does not include the storage and withdrawal capacity of the newly-certificated Pleasant Creek facility, which PG&E sold in early 2025. (D.25-04-032.)

consistently found that the ISPs lack market power.[23] With four established storage providers and one new market entrant, the storage market is undeniably competitive. The fact that the four established storage providers have been operating successfully in the same market for the last 15 years shows that no individual ISP has the power to force its competitors out of business or to force customers to accept non-competitive terms.

None of the ISPs have captive customers. The fact that PG&E must contract with the ISPs for a portion of its core supply, and that other noncore customers must contract with the ISPs because PG&E no longer offers commercial storage services, does not translate to a captive customer base. PG&E itself is not a critical customer for any one ISP. Wild Goose, for example, has had one contract with PG&E in the last ten years. The ISPs do not rely on PG&E for their commercial operations or success. The longevity of the independent storage market, combined with the broad base of sophisticated core and noncore customers, establishes that the demand for ISP services is diversified and robust.

[23] 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 Gooses' market-based rates); D.13-06-017, p. 13 (affirming the appropriateness of Wild Goose's market-based rates because its shareholders remain completely at risk for cost recovery for storage facility construction and operations); D.14-12-013, p. 12 (approving the transfer of control of Lodi and acknowledging Lodi's market-based rates); D.17-10-014, p. 10 (noting that Wild Goose and Lodi have no captive customers 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 (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); D.23-08-033, p. 7 (concluding that the transfer of control will not change any aspect of CVGS's operations, explaining that it operates under market-based rates, not a cost-of-service rate-of-return framework, its customers bear no risk for investments of operations, all of its customers have competitive options, and it has no market power); D.25-04-032, pp. 34–37 (discussing the newly-certificated Pleasant Creek Gas Storage ISP's lack of market power).

With respect to Wild Goose and Lodi, the white paper improperly insinuates that their shared corporate parent structure equates to 77% of total ISP inventory capacity.[24] Wild Goose and Lodi are operated as separate companies and are subject to strict requirements prohibiting them from sharing sensitive market information with one another.[25] That means that the personnel responsible for negotiating storage contracts at each company cannot communicate with each other regarding contract pricing or terms, nor about the facilities' operations. That also means that any management personnel at Rockpoint who are permitted access to the sensitive market information for the facilities cannot share that information with personnel at the storage companies.[26] While Rockpoint may provide certain non-market administrative efficiencies as the parent company of Wild Goose and Lodi, Rockpoint does not have any ability to make market-based decisions for 77% percent of the storage market.

It is also worth reiterating that the configuration of the ISP market is neither new nor unfamiliar. The Commission is not only aware that Wild Goose and Lodi have shared corporate affiliates since 2008, but the Commission has consistently approved those affiliate relationships, finding each time that Wild Goose and Lodi lack market power.[27] The Commission is also aware that there are "just" five ISPs, all of which the Commission has expressly found lack

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[24] White Paper, Part II, pp. 25, 28.

[25] D.14-12-013, p. 10 (approving the ownership transfer of Lodi to Brookfield Infrastructure Fund and affirming the prohibitions against sharing sensitive market information between Wild Goose and Lodi originally adopted in D.08-01-018).

[26] See D.16-06-014, pp. 15, 28–29 (approving the ownership transfer of Wild Goose to Brookfield Infrastructure Fund and removing the restriction on communication between Wild Goose and Lodi's affiliates; the Commission emphasized that the prohibition on sharing information between Wild Goose and Lodi remained in place).

[27] I.23-03-008, Wild Goose and Lodi Opening Comments on Amended Scoping Memo, pp. 9–11; Wild Goose and Lodi Reply Comments on the Amendment to Scoping Memo, p. 5 (June 21, 2024).

market power. A market does not need a large number of participants to be competitive.[28] And, as is demonstrated above, PG&E's core storage needs are not significant enough to change the fundamental nature of the independent storage market.

2. PG&E's Bargaining Power is Not Restricted by the NGSS

PG&E's NGSS has not, as the white paper states, "significantly change[] the storage market."[29] The fundamental nature of the competitive storage market is that customers have different needs at different times, market participants and customers come and go, and an ISP that successfully bids for a customer's business one year may lose that business to another ISP the following year. The NGSS itself has also changed with each subsequent general rate case. PG&E's bargaining power within the gas market is not limited. In addition to having five ISPs to choose from when contracting for storage, PG&E Core Gas Supply oversees a complex supply portfolio and determines its own balance of long-term, monthly, and spot market gas purchases, the locations from which it buys gas, the manner of purchase, and the contract structure.[30] In addition to procuring storage, PG&E can obtain supply from the transmission systems or hub-to-hub transactions.

The white paper incorrectly says that the ISPs can estimate within a range how much storage PG&E is required to purchase from them based on the NGSS.[31] The ISPs agreed to *collectively* provide up to 863 MMcf/d of capacity for PG&E core storage, but the fact that the total number is common knowledge does not mean that the ISPs know how much of that

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[28] The Commission has noted in other contexts that tight market conditions do not necessarily demonstrate an abuse of market power. (D.22-07-025.)

[29] White Paper, Part II, p. 28.

[30] White Paper, Part I, p. 25.

[31] *Id.* at pp. 28–29.

capacity PG&E has already secured with their competitors. The only way to use PG&E's NGSS requirements as leverage to price contracts "above competitive market prices" would be if an ISP knew what volumes PG&E had already contracted for with the other four ISPs. Storage contract information is highly sensitive and the ISPs do not share the details of their NGSS contracts with each other, nor is that data available publicly. Simply put, the ISPs do not know what PG&E's NGSS contracting requirements or strategy are at any given time.

The white paper also incorrectly assumes that there is an identifiable "competitive market price." As discussed above, the price of storage moves constantly and contract terms are dependent on the specific customer requirements and the operational characteristics of the storage facility. Wild Goose and Lodi have explained that a wide distribution of rate offers in response to a customer RFP is evidence that each ISP is pricing its offer according to its unique deliverability curve and its proprietary pricing methodology.[32] The competitive market yields varied results across the ISPs. Wild Goose's and Lodi's contracts are with a broad mix of customers—sometimes including PG&E, and sometimes not—indicating that the independent storage market is far bigger than PG&E core storage. The ISPs do not need to inflate the price of PG&E's contracts to remain commercially viable.

G. ISP Tariffs Should Not Be Reevaluated

The white paper's suggestions that the Commission review whether current ISP tariff structures protect ratepayers from excessive pricing, and that the Commission undertake a cost-of-service study to determine if ISP rates are justified and reflect a competitive market, are unfounded.[33] As explained above, storage pricing is based upon seasonal spreads, which, in

[32] I.23-03-008, Wild Goose and Lodi Reply Comments on Amended Scoping Memo, p. 6.

[33] White Paper, Part II, p. 29.

turn, are comprised of macroeconomic inputs that are broad and complex in nature. The tariffs are operational documents; they are not designed to in any way dictate the basis of storage pricing, which is driven by seasonal spreads. The ISP tariffs are not the mechanism to control the pricing of storage.

The white paper's suggestion for a cost-of-service study to justify ISP rates demonstrates a basic misunderstanding of the independent storage market and ISP contracting. An individual ISP's actual long-run marginal costs will not be determinative of whether an individual contract reflects competitive pricing, nor will they provide insight across all the ISPs into whether the market itself is competitive. Gas storage contracts are priced according to numerous factors that have nothing to do with the ISP's marginal costs. Nor will long-run marginal costs be comparable across the ISPs, given the differences in their size, location, capacity, and operations and maintenance characteristics. To truly understand the PG&E core storage contracts that it finds concerning, the Commission must examine the terms that PG&E required of the ISP(s), the effect (if any) of those requirements on the ISPs' ability to enter into other contracts, the then-prevailing market price of storage, and the other factors that existed at the time the contracts were negotiated. The Commission will not gain insight into the contracts by focusing on the ISPs' tariffs or examining their long-run marginal costs.

It is also unclear what the outcome of such inquiries would be. Any attempt to rate-regulate the ISPs would require completely unwinding the competitive storage market and would ultimately be unworkable. The Commission could not set cost-of-service rates for the ISPs; they have no captive customers, which means there would be no way to determine a per-customer cost of service. Full rate regulation also guarantees that the utility will recover its costs plus a reasonable rate of return. Without a captive customer base, no ISP could be guaranteed to

recover its costs. There is no rational way for the Commission to assign customers to specific ISPs, given that the ISPs overwhelmingly serve noncore customers whose storage needs and ISP contracts change constantly.

H. Public ISP Inventory Reporting is Unnecessary

The white paper's suggestion that the Commission consider requiring the ISPs to publicly report daily inventory levels, to give prospective customers more leverage when negotiating new contracts, will not address the Commission's concerns with PG&E's core storage contracts.[34] The concept that public disclosure of ISP daily inventory levels could give customers more leverage to negotiate storage contracts is anti-competitive in nature. The ISPs deal exclusively with sophisticated market participants—PG&E Core Gas Supply included—that have a firm understanding of the gas market and contract negotiation. Note that customers are not the only ones who would be able to use the public inventory information to their advantage. It is possible that the ISPs could use that information against one another to inform their pricing on PG&E RFPs, and therefore could ultimately increase contract pricing.

II. CONCLUSION

The Commission should decline the white paper's invitation to consider unwinding the ISP market. PG&E's core storage contracts are the product of numerous factors, none of which include reduced bargaining power for PG&E or non-competitive contract terms. A competitive storage market reduces price volatility and improves system reliability. The independent storage market is competitive and is working as intended: utility ratepayers do not bear the risk of investment in ISP storage; the entire market benefits from the flexible and critical storage capacity built by the ISPs at their own expense; and market competition reduces price

[34] White Paper, Part II, p. 29.

fluctuations as available capacity and demand fluctuate throughout the gas year. Because it provides reliability and price management during peak demand periods, both of which benefit customers, gas storage is naturally aligned with customer interests.

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