

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. _____

ORDER INSTITUTING INVESTIGATION**I. INTRODUCTION**

The price of natural gas in California, and throughout the Western United States, has been extraordinarily high this winter, starting in late November 2022. In February 2023, gas prices trended downward but are still very high compared to February 2022. Further, high gas prices can have a delayed impact on customer bills when electric rates increase because the gas-related costs of running electric power plants are higher than earlier forecasts.

California ratepayers have asked the California Public Utilities Commission (Commission or CPUC) for an explanation of and relief from gas bills that have soared this winter. California Governor Gavin Newsom and other elected representatives have written to the Federal Energy Regulatory Commission (FERC) asking it to investigate whether market manipulation, anticompetitive behavior or other anomalies have contributed or are contributing to the high prices seen throughout the West this winter.

The U.S. Energy Information Administration (EIA) recently posted its analysis on the drivers of the recent gas price spikes, which include widespread, below-normal temperatures; high natural gas consumption; pipeline constraints; reduced natural gas flows; and low storage inventories in the west.

On February 7, 2023, the Commission held an *en banc* hearing to gather facts on the extent of and reasons for high gas prices this winter. This Order Instituting Investigation (OII) is intended to continue the Commission's fact-gathering effort; examine whether events are at play other than normal market forces; determine whether

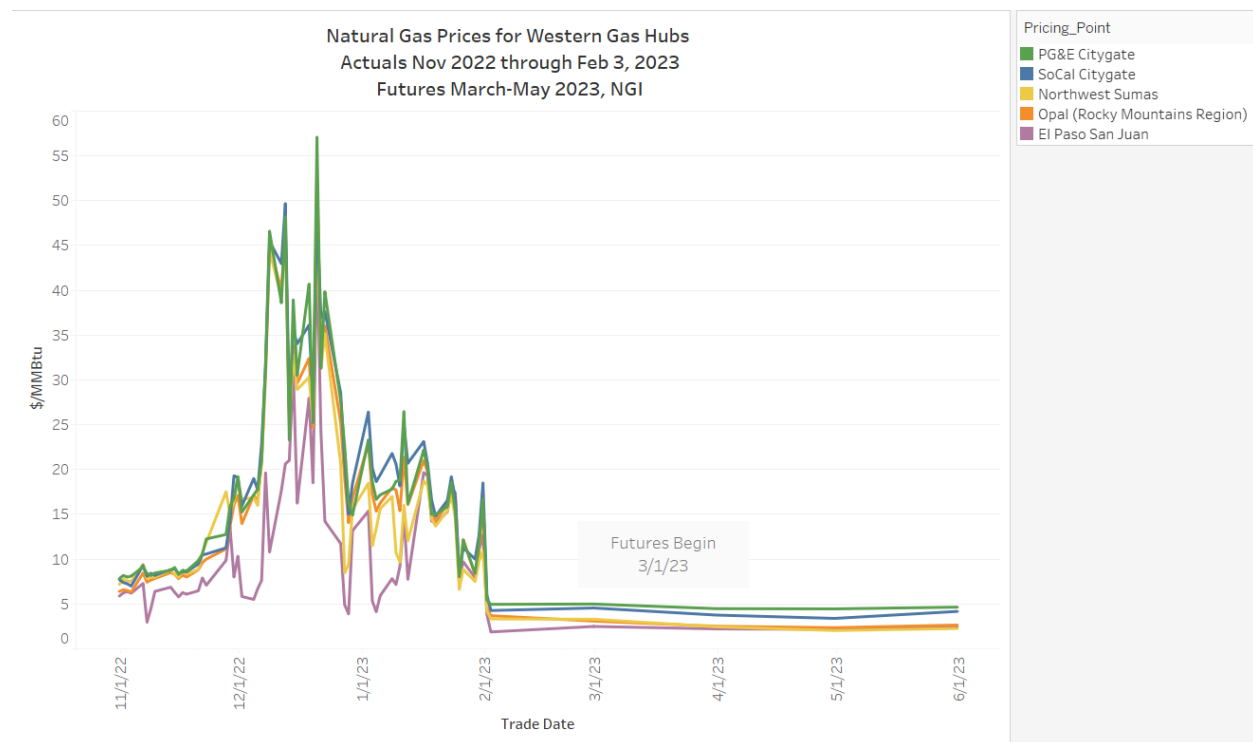
Commission action may provide relief; and consider whether other entities have jurisdiction to mitigate high natural gas prices.

II. BACKGROUND AND RECENT PRICE DATA

Natural gas is mostly imported from outside the state through interstate gas pipelines and stored in gas storage fields. Of California's total gas usage, 90 percent is imported in an average winter month, and 10 percent is available from California production. Thus, California gas prices are greatly affected by activity outside the state. Further, high gas prices may discourage entities from purchasing gas to inject into storage, affecting reliability in the summer.

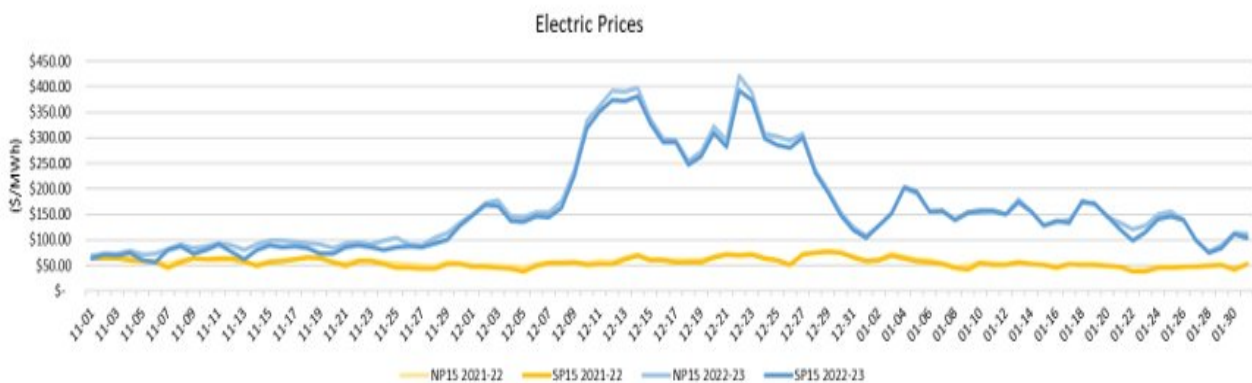
During sustained cold snaps, Californians rely extensively on natural gas to heat homes and businesses. The extraordinary gas price spikes observed since late November 2022 have led to questions about whether market fundamentals, such as those described by the EIA, are sufficient to explain their extent and duration. Figure 1 shows recent price trends.

Figure 1

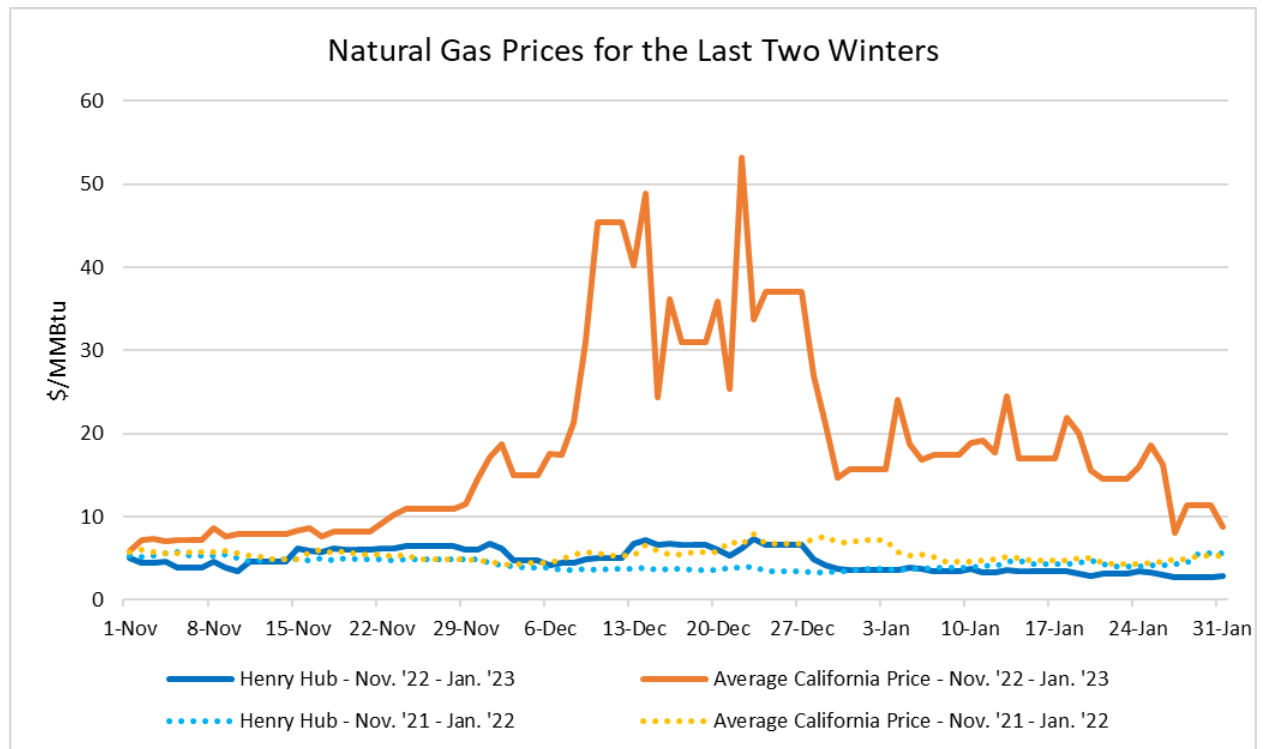


The Commission is also concerned that if high prices continue or recur, gas or electric customers may suffer further price impacts during summer 2023 and beyond. High gas costs have led to high electric prices in the CAISO Market and the Western Energy Imbalance Market compared to 2021-2022, as shown in Figure 2. CAISO has estimated that electricity prices were \$3 billion over the norm in December 2022.

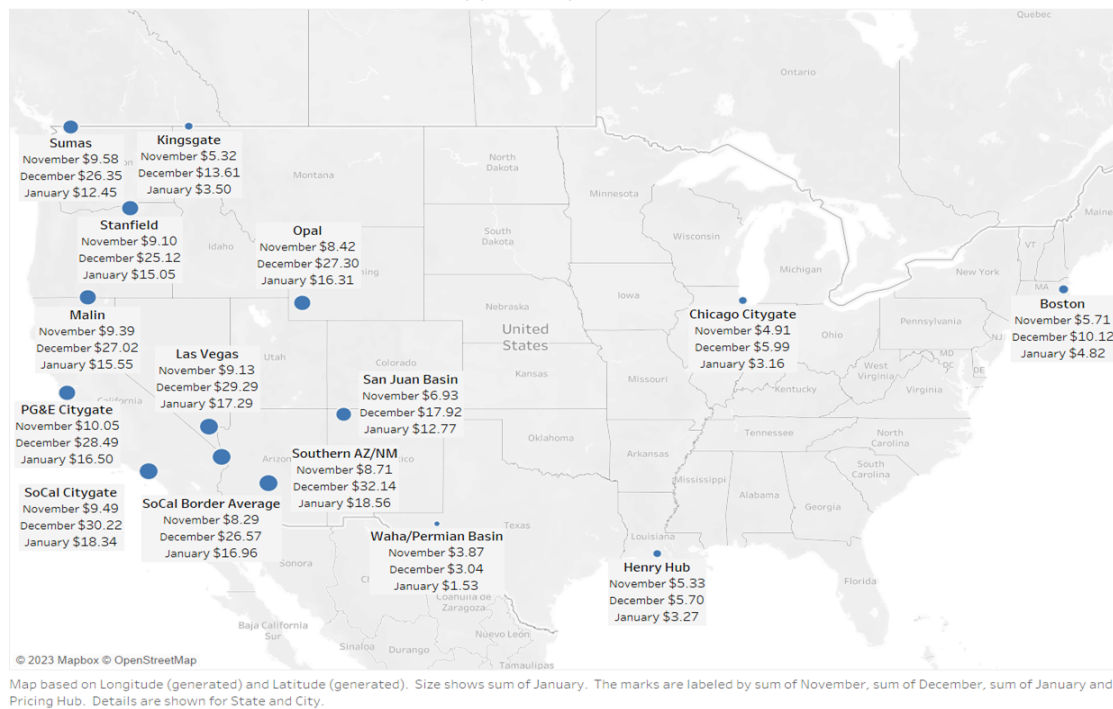
Figure 2



The Commission gathered important data during its February 7, 2023 *en banc* hearing regarding this winter's high gas prices and their impacts. For example, the California Energy Commission (CEC) presented price comparisons between this winter and last winter. As shown in Figure 3, gas prices for delivery on December 22, 2022, were nearly seven times higher compared to the same day in 2021. Additionally, the CEC showed that the price spikes were not unique to California and were experienced in other Western hubs, as illustrated in Figure 4 below.

Figure 3**Figure 4**

Winter 2022-2023 Natural Gas Hub Prices (\$/MMBtu)



At the *en banc* hearing, Southern California Gas Company (SoCalGas) shared the charts below, which illustrate storage inventory levels at the start of the winter in the Pacific Region (Figure 5) and, more specifically, SoCalGas' territory (Figure 6). The Pacific Region storage levels this winter started out notably lower than the five-year average. On the other hand, SoCalGas' storage inventory started out higher than the five-year average, but quickly dwindled due to increased heating demand brought on by cold weather early in the winter season.

Figure 5

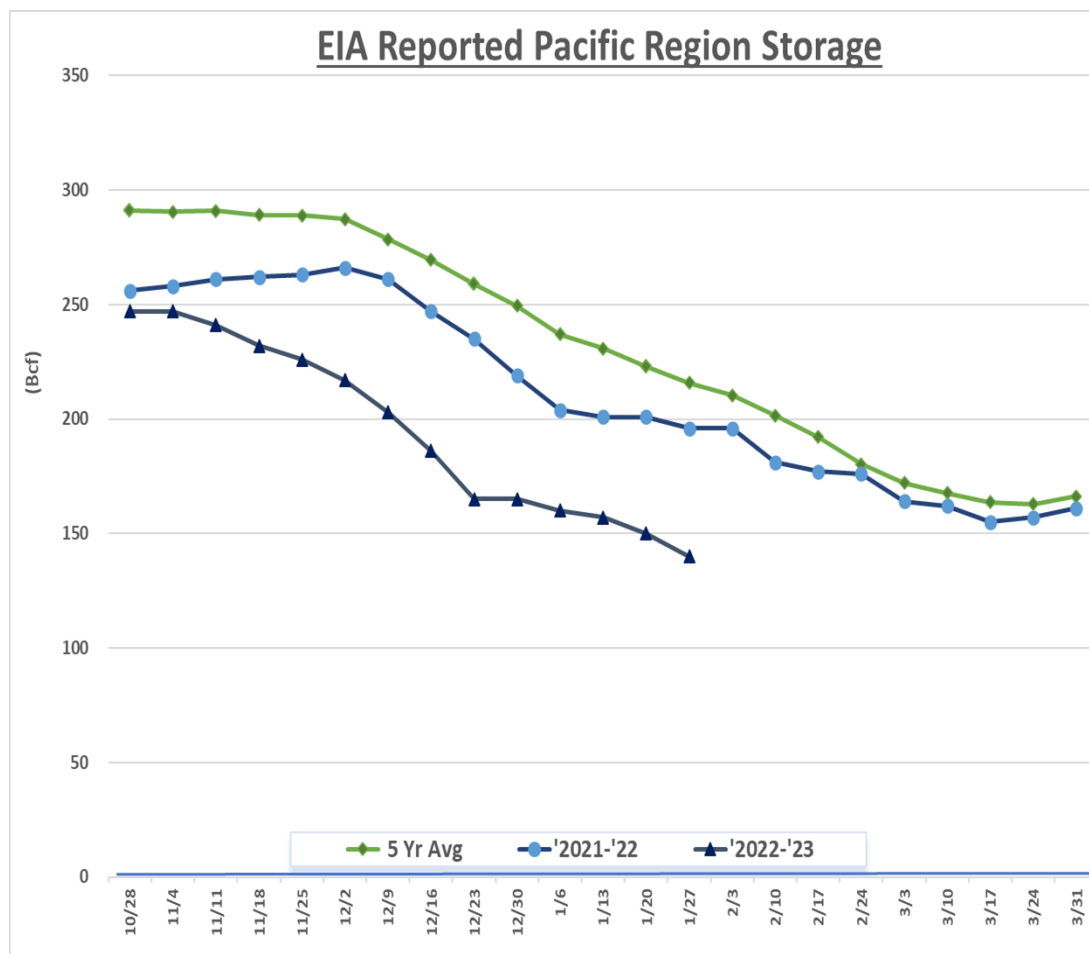
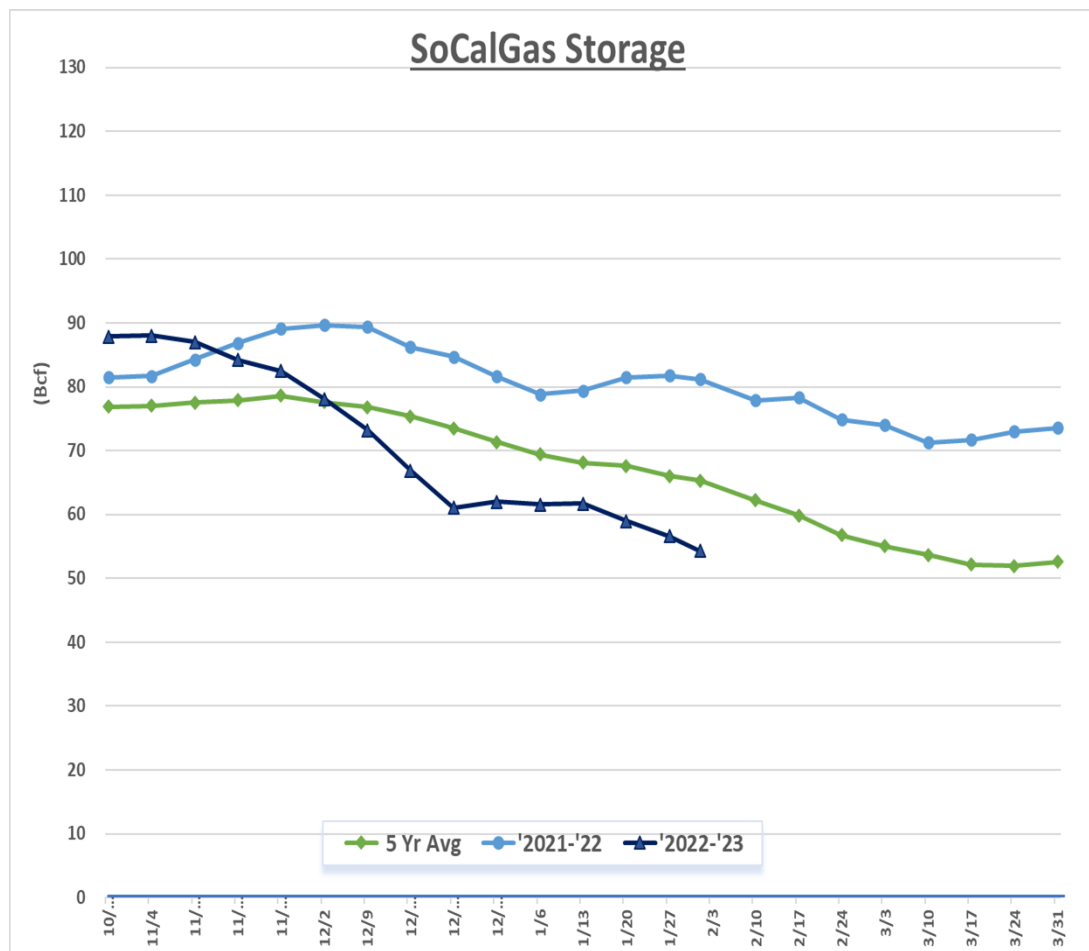


Figure 6

Pacific Gas and Electric's (PG&E) *en banc* presentation included the chart below in Figure 7, which compares the storage capacity levels of the independent storage providers (ISP) to inventory levels at the start of winter 2021-22 and winter 2022-23. PG&E indicated that there was extra capacity in the ISP fields that could have been filled by noncore customers.¹ PG&E suggested that noncore customers might have decided not to inject gas into available storage earlier in the year because in June 2022 the futures prices for December 2022 were lower than the summer prices, as shown in Figure 8

¹ Noncore customers are large commercial and industrial customers, including electric generators, who make their own decisions about gas commodity purchases and storage. They only rely on the utility to transport their gas through the pipeline system.

below. Based on then-expected future prices, noncore customers would not have realized an economic benefit from storing higher priced gas for use later in the year when prices were expected to be lower.

Figure 7

PG&E Service Area Independent Storage Providers

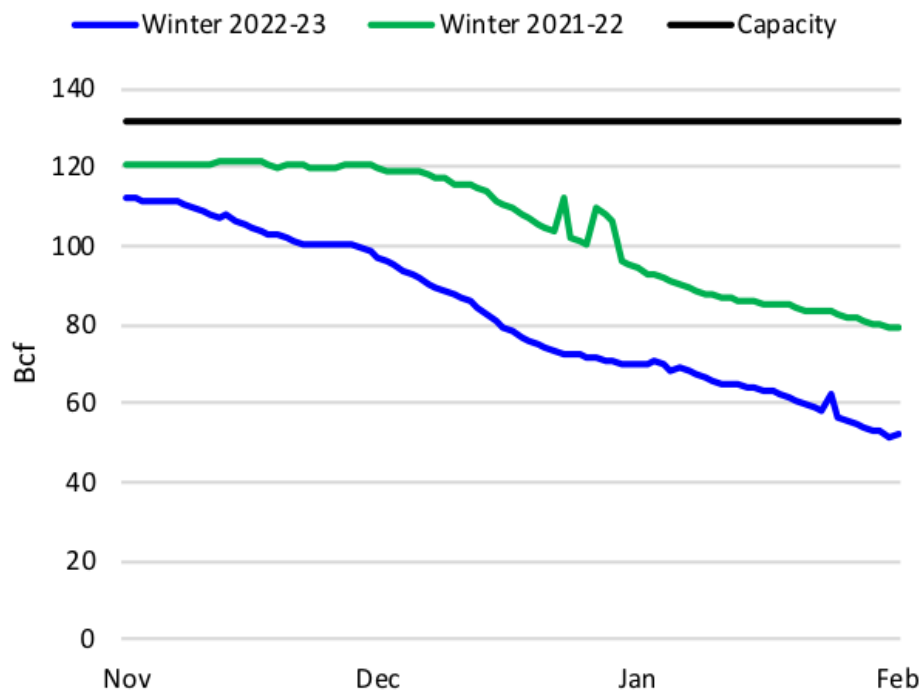
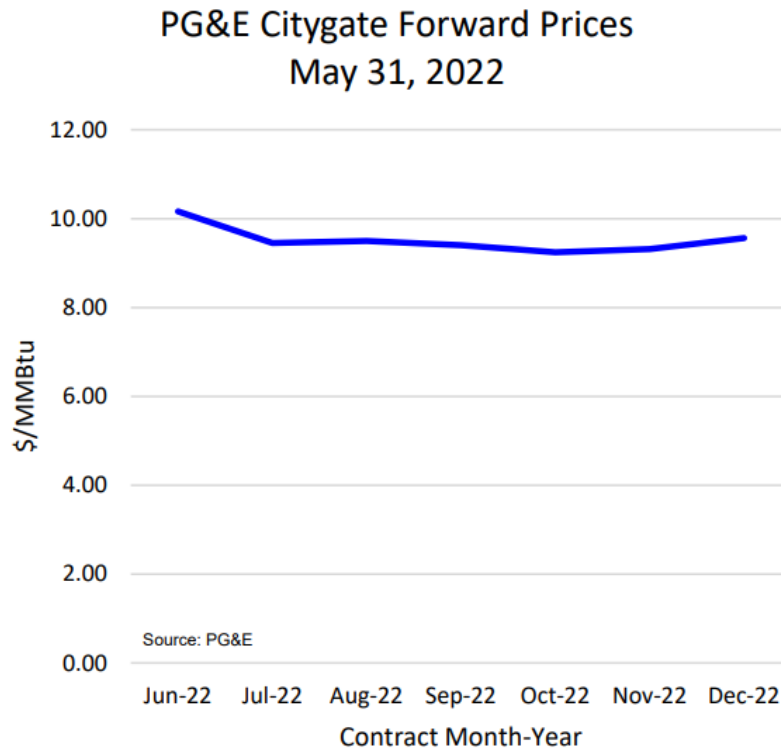
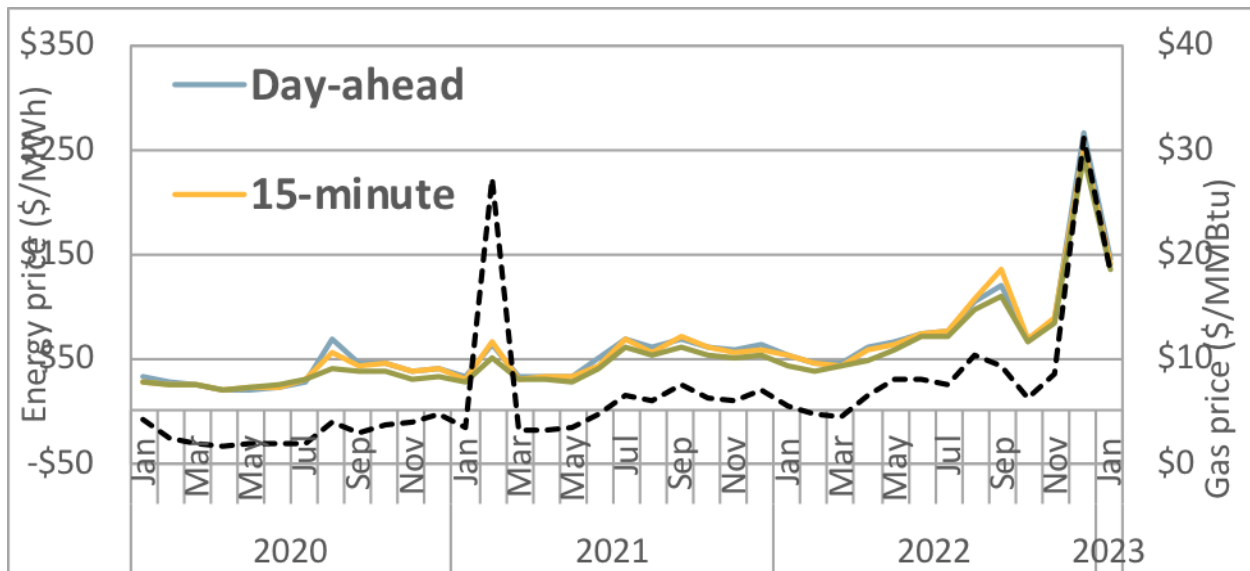


Figure 8

At the *en banc* hearing, the CAISO Department of Market Monitoring (DMM) illustrated electric price impacts from gas market volatility, as shown in Figure 9. CAISO DMM indicated in its presentation that it is typical for gas prices to be one of the main determinants of electric prices, even as renewable resources are integrated into the electricity market.

Figure 9

III. PRELIMINARY SCOPING MEMO

A. Preliminary Scope

The Commission will investigate 1) the causes and impacts of the winter 2022-2023 gas price spikes and the potential for recurrence, 2) the impact of the 2022-2023 gas price spikes on gas and electric prices and gas and electric customer bills, 3) potential threats to gas and electric reliability and price volatility in summer 2023 and beyond; and 4) potential mitigations. The Commission will also examine the utility communications to customers to determine whether they were sufficient or require modifications.

The scope of this proceeding shall include all issues raised in this OII but will not be limited to these issues. To the extent additional gas market anomalies occur during this investigation, these issues may be in scope as well.

Respondent and other party comments in response to the OII should present information regarding gas market activity and electric market activity in purchasing gas that may have affected gas prices during the period November 1, 2022 through March 31, 2023. Specifically, Respondents' and other parties' comments should address each of the following issues:

1. What factors caused or contributed to observed gas price increases beginning on November 1, 2022? Comments shall address market fundamentals as well as other applicable factors.
2. Did any of the entities under our regulatory jurisdiction play a role in causing the increase in California border prices between November 1, 2022 and March 31, 2023?
3. What actions can the CPUC or other entities take to avoid the likelihood that similar price spikes will occur in the future?
4. What actions can the CPUC take to mitigate the harm to ratepayers if such price spikes do recur?
5. Is there any information that the CPUC should collect or examine to further understand market dynamics?
6. Are there any gas and electric market interactions that affect costs to consumer that the CPUC should examine and/or investigate?
7. What were the utility communications to customers about the high gas prices, and what changes, if any, should be made in the future?

Discovery in this investigation may commence upon issuance of this order.

B. Category and *Ex Parte* Communications

This OII preliminarily determines that the category for this proceeding is quasi-legislative. If the investigation reveals that Respondents have violated the law or rules or orders of the Commission, the Commission may enter a ratesetting or adjudicatory phase of this investigation. If the appropriate legal basis is shown, the Commission may order Respondents to submit to appropriate ratemaking authority or penalties.

This preliminary determination is not appealable but shall be confirmed or changed by an assigned Commissioner's ruling after consideration of any comments received. The assigned Commissioner's determination as to category is subject to appeal. (Rules 7.3 and 7.6.)

Because this proceeding is characterized as quasi-legislative, communications with decision makers and advisors in this rulemaking are allowed without restriction.

C. Need for Evidentiary Hearing

The Commission anticipates many of the issues in this proceeding can be addressed by filed comments, public meetings, and/or workshops. Therefore, we preliminarily determine that no evidentiary hearings will be needed. (Rule 7.1(d).) The assigned Commissioner's Scoping Memo and Ruling, after considering the comments and recommendations of parties, will make a final determination on the need for hearing. (Rule 7.3(a).)

D. Preliminary Schedule

It is the Commission's intent to resolve this proceeding within 36 months of the date the OII is adopted. The assigned Commissioner or assigned Administrative Law Judge may change the schedule to promote the efficient and fair administration of this proceeding.

Respondents shall, and other parties may, file and serve comments on the proposed preliminary scope of this OII and specific questions set forth above within 30 days from the date this OII is issued. Comments shall also state any objections to the preliminary scoping memo regarding category, need for hearing, issues to be considered, or schedule. (Rule 6.2.)

The assigned Commissioner and Administrative Law Judge may consider directing Commission staff to hold a workshop shortly after comments are filed. Parties are encouraged to address in their comments whether they would consider one or more workshops to be useful.

E. Respondents

We name as Respondents Southern California Gas Company, San Diego Gas & Electric Company (SDG&E), Southwest Gas (SW Gas), PG&E, Southern California Edison Company (SCE), Alpine Valley, Bear Valley, West Coast Gas, Central Valley Gas Storage, Wild Goose Gas Storage, Lodi Gas Storage, and Gill Ranch Gas Storage.

IV. SERVICE LIST, FILING AND SERVICE OF DOCUMENTS, SUBSCRIPTION SERVICE

A. Initial Service

The initial service of this OII should be performed on the service lists for the following proceedings, which the Commission used to provide notice of the February 7, 2023 *en banc* hearing: Rulemaking (R.) 18-07-005 (Disconnections/Reconnections to Improve Energy Access and Contain Costs); R.18-07-006 (Affordability of Utility Service); R.11-03-012 (Utility Cost and Revenue Issues re Greenhouse Gas (GHG) Emissions); R.14-03-003 (Natural Gas Distribution Utility Cost and Revenue Issues re GHG Emissions); R.22-07-005 (Demand Flexibility Through Electric Rates); R.21-03-011 (Provider of Last Resort); R.22-11-013 (Distributed Energy Program Cost Effectiveness); R.17-06-026 (Power Charge Indifference Adjustment); R.20-05-003 (Integrated Resource Planning); R.21-10-002 (Resource Adequacy); R.20-01-007 (Long Term Gas Planning); Investigation (I.) 17-02-002 (Aliso Canyon); Application (A.) 22-05-029 (Closed) (PG&E 2023 Energy Resource Recovery Account (ERRA) Forecast); A.22-05-025 (Closed) (SDG&E 2023 ERRA Forecast); A.22-05-014 (Closed) (SCE 2023 ERRA Forecast); A.20-02-009 (PG&E), A.20-04-002 (SCE), A.20-06-001 (SDG&E) (Consolidated ERRA Compliance 2019); A.21-03-00 (PG&E ERRA Compliance 2020); A.21-04-001 (SCE ERRA Compliance 2020); A.21-06-004 (SDG&E ERRA Compliance 2020); A.22-02-015 (PG&E ERRA Compliance 2021); A.22-04-001 (SCE ERRA Compliance 2021); A.22-06-001 (SDG&E ERRA Compliance 2021); A.21-06-021 (PG&E General Rate Case (GRC)); A.22-05-006 (PacifiCorp GRC); A.22-08-010 (Bear Valley Electric Service GRC); A.22-05-015/A.22-05-016 (Consolidated SoCalGas and SDG&E GRC); A.22-11-018 (Liberty Utilities Energy Cost Adjustment Clause (ECAC)); A.22-08-001 (PacifiCorp ECAC); A.22-09-015 (SoCalGas and SDG&E Application to Revise Natural Gas Rates); A.21-09-018 (PG&E Gas Cost Allocation and Rate Design); A.22-06-005 (SoCalGas Gas Cost Incentive Mechanism).

B. Addition to the Official Service List

The initial service list consists of the named Respondents, who have party status.

Additions to the official service list are governed by Rule 1.9(f). Persons who file responsive comments to the OII will become parties to this proceeding and will be added to the “Parties” category of the official service list upon such filing. In order to assure service of comments and other documents and correspondence in advance of obtaining party status, persons should promptly request addition to the “Information Only” category as described below. They will be removed from that category upon obtaining party status.

Interested entities should request to be added to the “Information Only” category of the official service list promptly to ensure timely service of comments and other documents and correspondence in the proceeding. (See Rule 1.9(f).)

The request must be sent to the Process Office by e-mail (processoffice@cpuc.ca.gov) or letter (Process Office, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California 94102). Please include the Docket number of this Rulemaking in the request.

C. Filing and Service

Filing and service of documents in this proceeding are governed by Article 1 of the Rules (See particularly Rules 1.5 through 1.10 and 1.13). If you have questions about the Commission’s filing and service procedures, contact the Docket Office (Docket_Office@cpuc.ca.gov) or check the Practitioner’s Page on our website at www.cpus.ca.gov.

D. Subscription Service

Persons may monitor the proceeding by subscribing to receive electronic copies of documents in this proceeding that are published on the Commission’s website. There is no need to be on the official service list in order to use the subscription service. Instructions for enrolling in the subscription service are available on the Commission’s website at <http://subscribecpus.cpus.ca.gov/>.

V. PUBLIC ADVISOR

Any person or entity interested in participating in this Rulemaking who is unfamiliar with the Commission's procedures should contact the Commission's Public Advisor in San Francisco at (415) 703-2074 or (866) 849-8390 or e-mail public.advisor@cpuc.ca.gov. The TTY number is (866) 836-7825.

VI. INTERVENOR COMPENSATION

Any party that expects to claim intervenor compensation for its participation in this Rulemaking must file its notice of intent to claim intervenor compensation within 30 days of the deadline for filing of reply comments, except that notice may be filed within 30 days of a prehearing conference in the event that one is held. (See Rule 17.1(a)(2).) Intervenor compensation rules are governed by Section 1801 et seq. of the Pub. Util. Code. Parties new to participating in Commission proceedings may contact the Public Advisor's Office for assistance. Contact information is set forth above.

IT IS ORDERED that:

1. This Order Instituting Investigation is adopted pursuant to Public Utilities Code Sections 451, 454, 701, 728, 729 and 761, Article XII, Section 6 of the California Constitution and Rules 5.1 and 6.1 of the Commission's Rules of Practice and Procedure.

2. The preliminary categorization is quasi-legislative.

3. The preliminary determination is that evidentiary hearings are not needed.

4. The preliminary scope of issues is as stated in Section III of this order.

5. Unless changed by the assigned Commissioner or Administrative Law Judge, the schedule stated in the Preliminary Schedule Section and Appendix A of this order is adopted. It is the Commission's intent to resolve this proceeding within 36 months of the date the Order Instituting Investigation is adopted.

6. Southern California Gas Company, San Diego Gas & Electric Company, Southwest Gas, Pacific Gas and Electric Company, Alpine Valley, Bear Valley Storage, West Coast Gas Southern California Edison Company, Central Valley Storage, Wild Goose Gas Storage, and Lodi Gas Storage are named as Respondents to this Order Instituting Investigation.

7. Southern California Gas Company, San Diego Gas & Electric Company, Southwest Gas, Pacific Gas and Electric Company, Bear Valley, Alpine Valley, West Coast Gas, Southern California Edison Company, Central Valley Storage, Wild Goose Gas Storage, and Lodi Gas Storage shall, and other parties may, file and serve comments responding to this Order Instituting Investigation within 30 days from the issuance date of the Order Instituting Investigation.

8. Discovery may commence upon issuance of this Order Instituting Investigation.

9. The Executive Director will cause this Order Instituting Investigation to be served on all named Respondents and on the service lists set forth in Section IV.A. of this order.

10. Any party that expects to claim intervenor compensation for its participation in this Rulemaking must file its notice of intent to claim intervenor compensation within 30 days of the deadline for filing of reply comments, except that notice may be filed within 30 days of a prehearing conference in the event one is held.

This order is effective today.

Dated _____, at San Francisco, California.