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Comments on the IEPR Commissioner Workshop on Gas Price Outlook

Additional submitted attachment is included below.

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Vice Chair Siva Gunda
California Energy Commission
Docket Unit, MS-4
Docket No. 25-IEPR-03
715 P Street
Sacramento, California 95814-5512

Subject: Comments on the IEPR Commissioner Workshop on Gas Price Outlook

Dear Vice Chair Gunda,

Southern California Gas Company (SoCalGas) appreciates the opportunity to provide comments on the June 6, 2025 California Energy Commission's (CEC) Integrated Energy Policy Report (IEPR) Commissioner Workshop on Gas Price Outlook (Workshop). The gas price outlook is an instrumental piece of the State's energy demand forecast, which plays a crucial role in the consideration and development of the State's energy policies, planning, and implementation. The gas price outlook is thus a critical component of the overall demand forecast that substantially influences future policy and scenario outcomes.

Our comments focus on the following topics: 1) There is a significant difference in gas throughput between the Baseline Demand Scenario and the Gradual Transformation Scenario presented at the Workshop, therefore an additional scenario for the price forecast is warranted, 2) The data and assumptions used for natural gas demand and revenue requirement scenarios may need further refining and is not indicative of future state, and 3) CEC could choose not to adopt a long-term gas price forecast due to the inherent uncertainty in the forecast and the policy implications of such information.

1) **There is a significant difference in gas throughput between the Baseline Demand Scenario and the Gradual Transformation Scenario presented at the Workshop, therefore an additional scenario for the price forecast is warranted.**

Subsequent to the CEC's adoption of the 2023 Gradual Transformation (GT) Additional Achievable Fuel Substitution (AAFS) Scenario at the May 8, 2024 CEC Business Meeting, a number of significant developments have occurred regarding the various fuel substitution policies and regulations across the State that directly call into question its underlying inputs and assumptions—and presumably, its outcomes. As Commissioner McAllister noted at the Workshop, there is a "wide range of possibilities" given our dynamic future. The majority of the difference between the Baseline Demand Scenario and the Gradual Transformation Scenario is driven by fuel substitution assumptions based on provisional zero emission appliance targets.[1] We therefore suggest the need to reevaluate the underlying assumptions feeding into the demand forecast to better reflect the current range of possibilities, thereby increasing accuracy in planning and policymaking efforts for Californians.

Proposed zero emission appliance regulations have raised significant concerns that they will impose higher costs on millions of families and small businesses and that they violate federal law. Accordingly, there have been several key developments concerning these regulations. Specifically, on June 6, 2025, after more than 18 months of rule development, the South Coast Air Quality Management District (South Coast AQMD) Governing Board voted to not approve the proposed amendments to Rule 1111 and Rule 1121 (zero emission space and water heating) due to opposition from the public of affordability concerns.[2] Additionally, in March 2025, California Air Resources Board (CARB) withdrew the Bay Area Air Quality Management District's (Bay Area AQMD) zero emission space and water heating rules (Rule 9-4 and Rule 9-6) from consideration for inclusion into the State Implementation Plan, likely to avoid Environmental Protection Agency's (EPA) disapproval. Bay Area AQMD is now considering revisions to their zero emission water heating rules.[3] Similarly, CARB has decided to not include its own zero-emission appliance rulemaking on the calendar of activities for 2025.[4,5] Finally, there is active litigation challenging South Coast AQMD Rule 1146.2, which regulates small boilers, commercial water heaters, tankless water heaters, and pool heaters in new and existing buildings and requires a transition to zero-emission appliances.[6] The Gradual Transformation Scenario's assumption that there will be a statewide adoption of 100 percent replace-on-burnout (ROB) for residential and commercial space and water heaters by 2040 was premised on inputs that retain little to no regulatory basis and

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[1] CEC, 2023 Gradual Transformation Additional Achievable Fuel Substitution (AAFS) Scenario, Slide 5 from May 8, 2024 Business Meeting, Item 10, available at: https://www.energy.ca.gov/filebrowser/download/6333?fid=6333#block-symsoft-page-title.

[2] LA Times, "On 7-5 vote, AQMD rejects gas appliance surcharge aimed at improving air quality," available at: https://www.latimes.com/environment/story/2025-06-06/socal-air-regulators-vote-to-relax-rules-that-would-phase-out-gas-appliances.

[3] BAAQMD, BAAQMD Stationary Source Committee, April 9, 2025, available at: https://www.baaqmd.gov/~/media/files/board-of-directors/2025/ssc_presentations_040925_op-pdf.pdf?rev=237e797b0c10487a89b45b2a51fc31a7&sc_lang=en.

[4] CARB, CARB Board Hearing, January 23, 2025, available at: https://ww2.arb.ca.gov/sites/default/files/barcu/board/books/2025/012325/25-1-5pres.pdf.

[5] SCAQMD, June 6, 2025 Governing Board Meeting webcast, available at: https://www.aqmd.gov/home/news-events/webcast.

[6] See *Rinnai America Corp. v. South Coast Air Quality Management District*, 2:24-cv-10482-PA-PD in which ten parties allege the South Coast AQMD's rule is preempted by the Energy Policy Conservation Act (EPCA).

should be reevaluated. SoCalGas recommends CEC conduct this reevaluation process as part of the ongoing 2025 IEPR Demand Forecast development.

Furthermore, a major input to the gas price forecast is the assumption of gas demand throughput. There is a significant difference in gas throughput between the Baseline Demand Scenario and the Gradual Transformation Scenario presented at the Workshop, therefore an additional scenario for the price forecast that includes programmatic fuel substitution, but does not include any codes and standards, is warranted. This scenario would capture fuel substitution based on projected incentives, but would not include any of the uncertainty of fuel substitution regulations. This alternative scenario could include Additional Achievable Energy Efficiency (AAEE) 3 and Additional Achievable Fuel Substitution (AAFS) 3 programmatic assumptions, but without the codes and standards portion. It may provide a more realistic pathway for gas system planning and would be consistent with the 2024 California Gas Report for SoCalGas territory.

2) **The data and assumptions used for natural gas demand and revenue requirement scenarios may need further refining and is not indicative of future state.**

Baseline historical and forecasts of natural gas demand prepared by the CEC represent only a subset of natural gas utilities' system load. In particular, the CEC excludes electric generation and wholesale load in the IEPR Demand Forecast. In the future, SoCalGas respectfully requests the CEC to collaborate with gas utilities to expand its forecasting scope so that projections and scenario analysis better match utilities' entire system load, peak throughput, and shifts in energy consumption patterns, potentially increasing reliance on natural gas and prompting adjustments in delivery systems. This is likely to result in demand projections or scenarios that are more in line with gas utilities' system planning consideration and obligations.

There are a number of concerns regarding the three revenue requirement scenarios presented at the Workshop that warrant additional stakeholder input to avoid use of unsubstantiated assumptions. For example, the Constant Growth Revenue Requirement uses historical growth rates that may not adequately factor in future scope of rate cases, cost allocation proceedings or rate design like inclusion of an enhanced fixed charge, future policy decisions, the potential impact of actions taken in the California Public Utilities Commission's (CPUC) Long-term Gas Planning Order Instituting Rulemaking (OIR), and compliance costs associated with future state and federal regulations. Additionally, there is no data or research underlying or supporting the use of a "Pruning Revenue Requirement" case at this time, and therefore such a scenario should not be used as a basis to define a bookend forecast. Consideration of these scenarios (and the basis for the associated modeling inputs and assumptions) should include an opportunity for sufficient stakeholder input before their use through a transparent process such as in a Demand Analysis Working Group meeting discussion.

3) **CEC could choose not to adopt a long-term gas price forecast due to the inherent uncertainty in the forecast and the policy implications of such information.**

While we appreciate the CEC staff's presentation on gas end-use rates to increase understanding with stakeholders and the public, the uncertainty and lack of a robust regulatory or factual basis for the analyses limits the usefulness of the projected rates. The range of the gas end-use rates presented is quite wide, ranging from less than $2 per therm on the low-end for the Pruning Revenue Requirement/Baseline Demand case to $47 per therm on the high-end for the Constant Growth Revenue Requirement/AAFS GT Demand case for SoCalGas. Furthermore, as discussed above, there are inherent problems with even the assumptions and approaches incorporated into these two outcomes at the ends of the range. The long-term gas price forecast is a crucial datapoint that can dictate the breadth of potential outcomes, such that there is risk that the current approach could lead to misinterpretation and misuse rather than help to advance the State's policy objectives. Because there is significant regulatory uncertainty and many decisions that need to take place over many years that will drive significant changes to the transportation rates (which is the main driver of the price forecast), there is too much risk with adopting a long-term gas price forecast that will be utilized as if there is certainty that the price forecast will come to fruition. We believe it would be more prudent for the CEC to focus on near-term gas end-use rates in support of the State's current decarbonization efforts.

Conclusion

We appreciate the opportunity to provide feedback on these important issues and urge the CEC to carefully reevaluate key assumptions in the demand forecast and gas price outlook. Given the evolving policy landscape and the inherent uncertainties in long-term projections, it is crucial that forecasting methodologies reflect realistic and practical scenarios. We look forward to continued engagement with the CEC to support state policies that promote affordability, reliability, and a balanced approach to California's energy future. Thank you for your consideration of our comments.

Respectfully,

/s/ Kevin Barker

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