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VIA E-MAIL
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California Energy Commission
Dockets Office, MS-4
Re: Docket No. 11-IEP-1K
1516 Ninth Street
Sacramento, CA 95814-5512

Re: 2011 Integrated Energy Policy Report: Comments of Pacific Gas and Electric Company on the Draft Staff Report *2011 Natural Gas Market Assessment: Outlook*

I. INTRODUCTION

Pacific Gas and Electric Company ("PG&E") appreciates the opportunity to provide comments on the California Energy Commission's ("CEC") Draft Staff Report "2011 Natural Gas Market Assessment: Outlook." PG&E agrees with the staff's acknowledgement that it is impossible to predict the precise state of the world at some future date and that a set of scenarios that provides various views of the future is helpful to understanding the impact of an array of outcomes on the price of natural gas. PG&E's comments focus on the inputs used in the analysis, as well as the outcomes. PG&E is happy to discuss these comments with the CEC staff should additional information be needed.

II. MORE ANALYSIS IS NEEDED TO REFLECT POTENTIAL OUTCOMES

At the September 27 workshop, one of the key areas of discussion was the tight range of the CEC's long-term natural gas forecast, with prices ranging from $5 to $7 per MMBtu in 2010 dollars, and demand ranging from 27 to 29 Tcf for the year 2030. Other industry forecasts, including the Energy Information Administration ("EIA"), show a much larger price range ($4 to $8 per MMBtu) and demand variation (25-32 Tcf) for the same year. While several scenarios were evaluated, one would expect that the range of forecasts would diverge more than is currently expected by the CEC. Therefore, additional analysis is needed to determine whether the narrower forecast range is a reasonable expectation for the future. Model parameters and scenario constructs may not reflect potential outcomes. For example, industrial gas demand elasticity could be much larger in a low price environment. Low prices and low gas-to-oil price ratios will likely revive the U.S. gas-intensive industries and create new demand such as gas-to-liquid conversion. In addition, coal-plant retirements could significantly increase gas demand for natural gas-fired electric generation if a nationwide CO2 price mechanism is enacted. PG&E expects modeling such scenarios would expand the range of prices and demand beyond what is currently forecast.

III. CONCLUSION

The CEC's 2011 Natural Gas Market Assessment offers a thoughtful approach for the future state of the natural gas markets. PG&E has suggested additional areas for analysis to ensure that the forecasts appropriately capture the high and low range of potential future states for planning and policy considerations.

Sincerely,

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cc: R. Tavares by email (rtavares@energy.state.ca.us)