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PG&E Comments on IEPR Workshop on Natural Gas Market and Demand Forecasts

Additional submitted attachment is included below.



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California Energy Commission
Commissioners Siva Gunda and Andrew McAllister
1516 9th St
Sacramento, CA 95814
Docket Number 21-IEPR-05

RE: Pacific Gas and Electric Company Comments on the Integrated Energy Policy Report (IEPR) Commissioner Workshop on Natural Gas Market and Demand Forecasts (Docket Number 21-IEPR-05)

Commissioners Gunda and McAllister:

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to participate in and comment on the California Energy Commission's (CEC) 2021 Integrated Energy Policy Report (IEPR) Commissioner workshop on natural gas market and demand forecasts held on August 30, 2021.

PG&E applauds the CEC's efforts in organizing this workshop and offers the following comments related to scenario analysis:

At the workshop, the CEC highlighted uncertainties and vulnerabilities by discussing different scenarios as an analytical approach to understand how these uncertainties could impact gas demand. As California approaches multiple policy and market uncertainties, PG&E supports the use of natural gas demand scenario analysis that can provide clarity on outcomes under different possible futures. A common understanding of these outcomes can inform statewide natural gas demand stakeholders on impacts and tradeoffs.

The efforts to develop scenario analysis for natural gas demand need to be developed. To begin, scenario analysis generally considers at least three types of scenarios. The base case scenario, based on current, commonly accepted assumptions. Two other scenarios that provide opposing bookend outcomes by changing the set of base case scenario assumptions. For example, a bookend is a scenario that can test the validity of an assumption set. The analysis can be further matured using sensitivity analysis where a single assumption is changed to understand the relative impact on the base case scenario.

Some of the uncertainties related to the commonly accepted assumptions impacting gas demand to investigate are listed below. One example assumption driving gas demand is the relative natural gas price outlook for California gas-fired electric generators. The burnertip price faced by a power plant can place the plant at a competitive advantage or disadvantage. This can drive gas demand higher or lower and represents a key uncertainty on throughput on the utility gas supply system. This for instance can impact upcoming

decisions on infrastructure planning. The following assumptions represent key areas of uncertainty scenario analysis, and will help us understand the following:

- Relative natural gas prices in the outlook;
- Gas demand changes from decarbonization efforts including electrification and natural gas substitution for petroleum-based uses;
- Weather and temperature changes, which can be:
 - o Long-term climate change;
 - o Precipitation and hydroelectric generation variation;
 - o Extreme-temperature events relative to historic averages;
- Mid-term reliability resources;
- Preferred system plan (PSP) resources;
- Retirement and additions of generation resources, including within the California Independent System Operator (CAISO) and the Western Energy Coordination Council (WECC).

A sufficiently rich (but still limited) set of sensitivity cases can provide an agreed upon foundation for analysis. This produces expected values and other point forecasts that vary depending on how those cases are weighted and draw from understandable and internally consistent potential futures. If carefully chosen to “cover all bases” in terms of plausible policy and climate endpoints, such a set of scenarios could partially future-proof the resulting analysis.

During the first session of the workshop, followed by the CEC presentation on the preliminary natural gas market results, Commissioner Gunda encouraged the public to comment on slide 23, which seeks public input about the escalator rate used on revenue requirements. Specifically, the CEC asks whether the escalation rate of 2.3 percent is too conservative. PG&E recommends using five percent as the revenue requirement increase for the purpose of this CEC analysis on transportation for PG&E’s service territory, consistent with PG&E’s IEPR Form 2.1 submitted to the CEC in May 2021. The 5 percent annual growth in revenues was used as an assumption in PG&E’s IEPR submission Form 2.1 in May 2021. This is supported by the fact that the CPUC’s authorized revenue requirement for PG&E’s gas operations for 2017-2022 averages roughly 5 percent per year.

As presented in its 2023 general rate case (GRC) application, PG&E forecasts operating expenses, capital expenditures and rate base increase to be greater than the 2.3 percent per year increase, proposed by the CEC, to improve safety and reliability for the extensive gas distribution, transmission and storage assets. The rate base growth is the principal driver of the need for annual increases and these changes in capital costs are not a function of inflation and therefore are not expected to track changes in the consumer price index (CPI). PG&E has invested and continues to invest substantial amounts to upgrade and replace infrastructure needed to provide safe and reliable service.

PG&E appreciates the time and effort that the CEC took to organize the natural gas market and demand forecast IEPR workshop. PG&E also appreciates the opportunity to speak, provide additional comments, and to share our perspectives on scenario analysis as a tool. We would welcome further discussion with the CEC to further collaborate with the investor-owned gas utilities and the California Public Utilities Commission.

Sincerely,

Licha Lopez
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