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NCPA Comments on 2021 Draft IEPR Vol III

NORTHERN CALIFORNIA POWER AGENCY COMMENTS ON DRAFT 2021 INTEGRATED ENERGY POLICY REPORT VOLUME III; DECARBONIZING THE STATEâ€™S GAS SYSTEM

Additional submitted attachment is included below.

BEFORE THE CALIFORNIA ENERGY COMMISSION

In the matter of: **Preparation of the 2021 Integrated Energy Policy Report**	**Docket No. 21-IEPR-01**

NORTHERN CALIFORNIA POWER AGENCY COMMENTS ON DRAFT 2021 INTEGRATED ENERGY POLICY REPORT VOLUME III; DECARBONIZING THE STATE'S GAS SYSTEM

The Northern California Power Agency[1] (NCPA) appreciates the opportunity to provide these comments to the California Energy Commission (CEC or Commission) on the Draft 2021 Integrated Energy Policy Report (IEPR) Volume III; Decarbonizing the State's Gas System, issued on January 12, 2022 (Draft Report or Volume III).

The Draft Report raises critically important issues about the future of California's natural gas system that the state must address. Decarbonization of the state's natural gas industry and related decommissioning of select natural gas infrastructure must be done in a way that: ensures energy is affordable; does not jeopardize energy reliability; does not harm consumers, particularly those in underserved and disadvantaged communities; ensures a just work transition; retains critical industries within the state; and does not leave remaining gas customers bearing the brunt of the costs for the transition.

In order to address these important issues, NCPA urges the Commission to take the recommendations raised in Volume III and further explore the best alternatives for moving forward as soon as possible. It is not enough to just identify the issues, but rather, the Commission must closely assess these issues and begin taking actions now that will help ensure a just transition that does not compromise the reliability and affordability of the state's energy supply.

[1] NCPA's members are the Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, Shasta Lake, and Ukiah, Plumas-Sierra Rural Electric Cooperative, Port of Oakland, San Francisco Bay Area Rapid Transit (BART), and Truckee Donner Public Utility District. Collectively, these publicly-owned utilities, rural electric cooperative, port authority, public transit district, and public utility district provide reliable and affordable electricity to approximately 700,000 electric customers in central and northern California.

I. INTRODUCTION

As the Commission points out at the very beginning of Volume III, "California's gas system is at an inflection point."[2] The state is at a critical time in its natural gas infrastructure and planning, as California concurrently moves towards greater decarbonization and greater electrification, the need to ensure equitable, affordable, and reliable service is paramount. The Draft Report notes the importance of addressing decarbonization and greenhouse gas reductions associated with the use of natural gas and the state's natural gas system. NCPA concurs with the Commission's position that this assessment, which must also look at the future utility of the infrastructure, implications of stranded costs, equitable access to the benefits of the system and decarbonization of the system, all while ensuring that the access to safe and reliable energy remains affordable for all Californians, will require collaboration with all of California's energy and climate agencies. However, inter-agency collaboration alone will not be enough. The Commission, and its sister agencies, must also work with the *providers* of energy, both in the electricity sector and natural gas sector, in order to fully understand the interdependences between the gas and electricity systems, and the impact that those interdependences will have on consumers and the total cost of energy, which will be a critically important element in determining the optimal path forward.

II. ABOUT NCPA

NCPA and its member agencies are committed to helping California reach its long-term decarbonization goals, including finding ways to decrease the greenhouse gas intensity of gas used as a fuel source, and decrease the utilization of traditional natural gas. As the Draft Report itself notes, NCPA has been a leader in the transition to a clean energy future. For example, NCPA has taken the initiative to explore the use of green hydrogen as a fuel source at its Lodi Energy Center natural gas-fired generation facility.[3] Having determined that this transition is a viable option, NCPA is currently seeking funding to implement the initial phases of this transition. In addition, NCPA is also seeking partnerships with investor-owned utilities and others to further develop hydrogen as a viable solution. NCPA's investment in green hydrogen

[2] Draft Report, p. 1.

[3] Draft Report, p. 70.

as a renewable storage medium and combustion of green hydrogen as a fuel contemplates a transitioning natural gas infrastructure.

III. COMMENTS ON THE DRAFT REPORT

A. Comprehensive Statewide Planning is Critical

The need for comprehensive statewide gas planning cannot be overstated. The Draft Report correctly notes that "[l]ong-term gas system planning will require an interagency collaboration involving the CEC, California Public Utilities Commission (CPUC), California Air Resource Board (CARB), and California Independent System Operator (California ISO). These entities all have key roles that should be brought to bear in planning for a decarbonized gas system."[4] NCPA is pleased to see that the Commission is working with these other agencies on a comprehensive report, as it is important that the comprehensive planning and assessment does not silo issues between the various energy agencies. For example, the Draft Report notes the ongoing work in the CPUC's Natural Gas Infrastructure proceeding.[5] That proceeding, however, is also intertwined with the CPUC's Affordability Proceeding.[6] In the Affordability Proceeding, Commissioner Houck recently issued an amended scoping memo that addresses the scope of Phase 3[7], wherein she notes that "this proceeding will include gas affordability issues because both gas as a heating source and a fuel source for electricity generation may impact customer affordability of energy," and that "the affordability of electric and gas service are interrelated." This underscores the importance of exploring the role of natural gas with a particular focus not only on the relationship between gas and electricity, but on how that relationship – and the decarbonization of the natural gas system – impacts the affordability of *energy*.

Similarly, CARB is working on the 2022 Scoping Plan Update. The Scoping Plan Update covers a wide range of issues that will have direct bearing on the state's natural gas system, including available technologies and greenhouse gas emissions reduction targets. Unless these agencies are working together on these issues, the strategies and recommendations

[4] Draft Report, p. 6.

[5] Rulemaking to Establish Policies, Processes, and Rules to Ensure Safe and Reliable Gas Systems in California and Perform Long-Term Gas System Planning (R.20-01-007)

[6] Rulemaking to Establish a Framework and Processes for Assessing the Affordability of Utility Service (R.18-07-006).

[7] R.18-07-006; Assigned Commissioner's Fifth Amended Scoping Memo and Ruling; January 18, 2022.

discussed in the Draft Report may not be consistent with the targets laid out in the Scoping Plan Update.

B. California Must Retain and Utilize the Existing Gas Infrastructure While Decarbonizing the System

As Chapter 4 discusses, the natural gas infrastructure will have an ongoing role in the supply of the state's energy needs, even as we move toward greater decarbonization. It is needed to supply energy to industries that are important to the state's economy and less nimble in their ability to transition to electric, as well as for residential and other customers that are unable to fully electrify, for whatever reason. The existing infrastructure is important for not only continuing to supply these industries and customers, but also for transporting green hydrogen, renewable natural gas, and other developing fuel technologies that will facilitate decarbonization. The natural gas system infrastructure is also necessary for grid reliability, as the Draft Report notes, and which the Joint Agencies have also recognized.[8]

In assessing the benefits and costs of decommissioning the existing natural gas infrastructure, the Commission and the state must also be careful not to pick winners and losers in the decarbonized market – both in terms of the fuels supplied and the industries it favors. For example, in developing the Scoping Plan Update scenarios, one option CARB staff has proposed for the industrial sector is for 50% energy demand electrified by 2030 and 100% by 2035; to meet this objective, CARB has acknowledged that where this is not feasible, the state should assume that a ban on combustion requires that industry to shut down or leave California.[9] NCPA believes that these customers, ones that are difficult or hard to electrify, or simply uneconomical to electrify, should be not be turned away from the state. Rather, the Commission should be looking at ways to ensure that the existing infrastructure – which is already in place to serve these industries – is retained or repurposed to provide a pathway for renewable natural gas and green hydrogen. Retaining or repurposing this infrastructure incentivizes the transition to cleaner fuels and reduces capital costs and environmental impacts, while ensuring that the impacted customers remain in California, keep the existing workforce in the state.

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[8] 2021 SB 100 Joint Agency Report, Achieving 100 Percent Clean Electricity in California: An Initial Assessment. March 202, https://www.energy.ca.gov/sb100#anchor_report.

[9] CARB 2022 Scoping Plan Update – Scenario Concepts Technical Workshop, August 17, 2021; see also, CARB PATHWAYS Scenario Modeling, 2022 Scoping Plan Update, December 15, 2021.

Additionally, while reducing the use of natural gas is an important component of the state's overall decarbonization strategy, the infrastructure transition cannot be successfully carried out without closely evaluating and acknowledging the interdependencies between natural gas and electricity. As recent extreme heat and extreme cold weather events have demonstrated, ensuring the long-term reliability of the energy grid must be paramount. As gas and electricity are so inexorably linked, ensuring long-term electricity reliability means ensuring that the natural gas-fired generation needed for fast ramping, local reliability, and firming intermittent renewable resources remain available. Long-term electricity reliability is also critical to getting greater buy-in from consumers as the state transitions to all-electric buildings and transportation. The state's policies should look at opportunities to ensure the availability of the existing gas-fired generation fleet to provide this added reliability. Utilizing these resources also mitigates the impact of stranded costs and provides a smoother glide-path to transitioning to renewable natural gas or green hydrogen, which plants like NCPA's Lodi Energy Center are already undertaking. Natural gas, and the greater infrastructure transition to renewable natural gas and green hydrogen, play a critical role in long-term grid reliability. This remains true, even in the face of a decreasing natural gas supply. There is a strong need to recognition of the importance of natural gas as an integral transition tool for decarbonization and electrification, and ensure that the infrastructure remains useable.

Furthermore, the direct link between the costs of natural gas fired generation and the impact on end-use electricity rates must be accounted for. To that end, NCPA urges the Commission to conduct a more granular analysis of the price of natural gas, and particularly for electric generation usage and the impact on affordability. The Draft Report states that the delivered price to electric generators has decreased since 2010.[10] Figure 12 shows a decreasing trend in the cost of delivered gas for electric generation, with a 2020 rate of under $4.00/MMBtu; this number is not consistent with the price paid by electric generators on PG&E's local transmission gas system. In 2020, gas-fired electric generators taking service on PG&E's local transmission system had a delivered cost of gas closer to $5.00 or $6.00/MMBtu.[11] Not only is the delivered cost significantly higher than what is in the Draft Report, but PG&E is seeking a significant rate increase that will drive that cost up even higher for the electric generation

[10] Draft Report; p. 23, Figure 12.

[11] *See*, PG&E Gas Schedule G-EG; https://www.pge.com/tariffs/assets/pdf/tariffbook/GAS_SCHEDS_G-EG.pdf.

customers on the local transmission system.[12] In order to get a more accurate representation of what the costs are – which the Commission must do in order to ascertain the total costs and impacts on electricity rates – the Commission must disaggregate this number to reflect where the electric generators get their natural gas, including whether they are on a utility's backbone or local transmission system.[13] For example, for electric generation customers on PG&E's local transmission gas system, 30% of the current cost to generate power is the transportation rate; for electric generation customers on PG&E's backbone transmission system, that cost is closer to 10%.[14]

The Draft Report also appears to hold these price trends constant; this may not be an accurate depiction of the true costs of natural gas given that the CPUC is currently considering eliminating the "obligation to serve" for natural gas utilities[15] and eliminating gas line extension allowances, refunds, and discounts provided under current gas line extension rules.[16] The trends reflected in the Draft Report do not reflect throughput impacts on the price of gas for electric generation.[17] This price analysis is important, as higher electric prices will not incentivize the public to electrify ahead of any mandates. As gas transportation rates are such a significant part of the cost of electricity, there is a direct impact on the cost of electricity associated with this analysis. Each of these factors warrant more granular examination than what is reflected in Figure 12, and NCPA urges the Commission to ensure that such an examination is done as part of the comprehensive, statewide gas planning strategy.

[12] *See*, Application of Pacific Gas and Electric Company for Approval of its 2023 Gas Cost Allocation and Rate Design Proposals for its Gas Transmission and Storage System, A.21-09-018.

[13] It is also worth noting that natural gas-fired electric generation on the local transmission system may also provide additional reliability and resiliency benefits to the extent that these facilities are often located closer to load centers.

[14] This differential is likely to increase further, as under PG&E's current GT&S CARB proposal, PG&E is seeking an increase for customers on the LT system, while BB will remain substantially the same; A.21-09-018.

[15] R.20-01-007.

[16] Rulemaking Regarding Building Decarbonization (R.19-01-011).

[17] Understanding the relationship between burner tip gas price, submitted generation bids to CAISO market, and resulting auction clearing price of the CAISO markets paid to all generation and eventually collected from electric ratepayers is crucial to set policy direction; market clearing prices established by the marginal costs of the thermal generation fleet are also paid to every other supply resource when gas transportation rates are collected through a volumetric tariff.

C. Ratepayers Must Not be Solely Responsible for Stranded Costs of Gas System Investments

In Chapter 7, the Draft Report includes a much-needed discussion of how to address stranded costs for gas system investments. Utility stranded costs will likely be significant, as it is necessary to ensure that all infrastructure currently being utilized must be maintained in safe manner, meaning costs will continue to accrue right up until the time a line is fully taken out of use. Even if costs are not deemed "stranded" by the utility, without some reallocation or change to the current rate structure, customers remaining on the natural gas system will be forced to bear a larger portion of the total system costs as total throughput decreases.

NCPA appreciates the Commission's discussion of this important issue. The Draft Report raises several alternatives and options for how to avoid forcing a small segment of the economy to pay for statewide policy objectives that warrant greater consideration. As this transition would benefit the entire state, a shift to have these programs covered by the general fund, as suggested by Borenstein, Fowlie, and Sallee for electricity-sector related programs, would go far to reduce the burden on gas ratepayers. Targeted retirements and conversion of existing infrastructure so that it can continue to be used and safely maintained should be explored as a means to reduce the overall burden of stranded costs.

Continued decarbonization will result in fewer customers utilizing the system, which will result in a continued burden on those remaining customers. The strategies for addressing these costs, either moving them to the general fund or removing them from rate base, must be deployed sooner rather than later. In short, California must move beyond the discussion-phase, and the Commission should facilitate that process. There should be no question that forcing gas ratepayers to shoulder all of these costs is an inequitable way to carry out the state's climate objectives. As such, the time to begin implementing policy, ratemaking, and pricing changes is now. Utility general rate cases at the CPUC set revenue requirements and rate design for four-year cycles. In the case of PG&E, current applications before the Commission will decide the rates and rate structure for natural customers through 2026.[18] The gas transportation rate designs that are adopted in those proceedings must be viewed now in light of the changing dynamics and greater gas/electricity interdependencies. Analysis of rate designs to be used by the Commission

[18] See, Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2023, A.21-06-021; and A.21-09-018.

in its assessment of the future of the state's natural gas system must acknowledge that existing natural gas transportation rate designs adopted by the CPUC were put in place when gas throughput was either static or increasing, while the future of natural gas is for declining throughput. NCPA also supports the Commission's further examination of means to ensure that there is an organized retirement of unneeded gas fired units with the least efficient units being retired first, to ensure that price signals are sent to newer technologies that incent their development, and rates for electricity remain affordable. Failure to address these issues now will thwart the state's ability to truly understand the overall energy rate impacts, and the best way to address those costs.

D. Consideration of Policy Issues and Implementation of Recommendations Should be Addressed Now

Creation of a long-term, comprehensive gas planning process for the state is key to achieving the state's goals. But NCPA cautions that the long-term planning must not ignore the need to look at actions that can be implemented in the short-term, including identifying critical infrastructure that can meet policy objectives to ensure a pipeline for hydrogen and renewable natural gas as a fuel source for electric generation, and other industrial practices. NCPA also urges the Commission, in coordination with the sister agencies, to add the following "policy objectives and principles" articulated in Chapter 10:

- Ensure that energy prices are affordable for all Californians and that customers that cannot electrify are not solely responsible for infrastructure costs; and
- Ensure that the transition from fossil fuels does not compromise the reliability of electric grid and statewide provision of electricity.
- Seek a most beneficial use strategy for transitioning gas infrastructure with an emphasis on reducing environmental impacts, addressing societal needs, and mitigating costs.

NCPA applauds the Commission's continued recognition of the need to consider gas and electricity interdependencies.[19] The list of key items for consideration should include the following additional factors:

- The Commission, in collaboration with the state's energy agencies, should ensure options for utilization of the existing natural gas infrastructure for increased use of

[19] Draft Report, p. 138.

green hydrogen, renewable natural gas, and other alternative fuel sources that are necessary for end-users that are difficult, impossible, or economically infeasible to electrify;

- The total cost of energy, including the impacts of a decarbonized gas grid and increased electrification, should be assessed in the context of gas and electricity interdependencies.

IV. CONCLUSION

Volume III of the Draft 2021 IEPR Update provides a much-needed discussion about what is necessary to decarbonize the state's natural gas system. It also raises important practical and policy issues that must be considered. NCPA urges the Commission to continue to address these questions and issues, t work collaboratively with the CPUC and CARB, and the state's energy balancing authorities, as well as the energy providers of both gas and electricity, to put forth implementable and cost-effective solutions to the myriad issues that were raised. NCPA also asks that the Commission update the data to provide a more granular examination of natural gas prices, the impacts on gas-fired electric generation, and the impacts on the overall cost of *energy* for California consumers. Lastly, NCPA urges the Commission to use the information in Volume III as the starting point for further deliberations and not to "shelf" this critically important information.

Please do not hesitate to contact the undersigned or Scott Tomashefsky at 916-781-4291 or scott.tomashefsky@ncpa.com with any questions.

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Respectfully submitted,

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