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Dear Mr. Tavares:

SoCalGas appreciates the opportunity to review and comment on the CEC's Draft Staff Paper on Natural Gas Infrastructure prepared by Mr. W. William Wood.

Southern California Gas Company/San Diego Gas & Electric Comments on CEC Draft Staff Paper; CEC-200-2009-004-SD, Natural Gas Infrastructure, May 14, 2009, by W. William Wood, Jr.

The Draft Paper attempts to assess the adequacy of California's gas infrastructure and access to gas supplies under extreme peak day customer demand conditions. The Sempra Energy Utilities, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric (SDG&E) hereby submit comments on the assumptions and analytical methodology of the report, and to correct some of the figures in the tables that are the basis of the analysis.

1. Correction to the SoCalGas Storage Figures in the Report

Table 1. California Natural Gas Storage Facilities

| | Working Storage Bcf (Billion cubic feet) | Maximum Injection Rate (MMcfd) | Maximum Withdrawal Rate (MMcfd) |
|----------|---------------------------------------------|-------------------------------------|--------------------------------------------------|
| SoCalGas | 131 Bcf | 850 MMcfd | 3,760 MMcfd |
| | + additional 7 Bcf by 2010-2014 | + additional 145 MMcfd by 2010-2014 | maximum, 3,195 MMcfd at 25 BCF inventory firm |

Table 2. Limiting Supply Capacity to Deliver Natural Gas to California Customers MMcf/d

SoCalGas/SDG&E have firm storage withdrawal capability of 3,195 MMcf/d in the winter, of which 2,225 MMcf/d is allocated for core customers, and the remaining capacity is for noncore service and balancing.

3. Assumption on “Long-term High Winter Demand” Period

SoCalGas/SDG&E believe that a scenario of “Long-Term High Winter Demand” period lasting for up to 150 days (November through March) is not based on any historical precedent, and is extremely unlikely. Discounting rare and highly unlikely events such as pipeline explosions, perhaps an unusually cold winter could cause a reduction in the current excess of natural gas supplies, where such gas is consumed in other states before reaching California. However, since there is a free market for gas supplies, California utilities would be able to compete for those supplies along with other states to assure that adequate supplies are available to meet California customer demand. In such a scenario, gas prices would temporarily rise to dampen demand and supplies would then be allocated to the highest valued users. Additional LNG supplies could also be expected to become available to California through the Costa Azul facility, which is not subject to east of California demand.

However, cold fronts have not previously lasted for 150 days. Although, cold winter periods can be as long as a few months, the extreme (1-in-35) low daily temperatures generally only occur for a few days, even during a cold winter. This fact is based on historical daily and yearly temperature records dating back to the 1950’s. During such cold periods, gas supplies would be withdrawn from storage at a higher rate to meet demand along with increased purchases of flowing supplies. As soon as a cold front dissipates, temperatures generally return to a cold winter average and the utilities would then need to withdraw less gas from storage to meet core customer demand. Storage levels would be maintained to assure that SoCalGas/SDG&E can continue to meet the winter withdrawal rate of 2,225 MMcf/d for core customers during the November through February cold winter period. Therefore, SoCalGas/SDG&E disagree with the conclusion by Staff that the withdrawal rate would be less than half under this scenario as shown in Table 2.

5. Separation Between Market Issues, Interstate Supply Issues, and California Gas Infrastructure

SoCalGas appreciates the distinction the Staff Paper makes between the pipeline delivery capacity and utility receipt capacity. SoCalGas suggests that the same care be applied throughout the report to distinguish between interstate supplies and California utility infrastructure. Likewise, SoCalGas believes this separation should also apply on the “Limiting Supply Capacity” scenario to the state’s ability to meet peak day demand. The report makes several references to the 2000-2001 energy crises and the need for having a “Limited Supply Capacity”. However, the 2000-2001 energy crisis was caused by a combination of events such as the drought in the Northwest, the El Paso interstate pipeline explosion, and policy decisions in California to maintain retail electricity price caps, which sheltered consumers from price volatility and thereby eliminated the demand reduction that would have occurred if electricity prices had been allowed to rise to cover the increased costs of generation. The CEC’s report indicates that the natural gas price tag for not planning for such a high winter demand scenario was more than \$19 billion in 2001. However, it was the failed electric market restructuring and other unforeseeable events in the natural gas market, and not the gas utilities’ lack of infrastructure that led to natural gas shortages and high prices. Since the winter of 2000-2001, additional storage capacity has been added in both Southern and Northern California. In addition, increased pipeline receipt capacity, additional pipeline delivery capacity, and LNG supplies from Baja California, are now available to meet peak day and cold winter demand. California’s current utility infrastructure is therefore not comparable to that which existed during the 2000-2001 period.

6. SoCalGas' Receipt Capacity and Storage Operations are More than Adequate to Meet Peak Day Demand

As shown below, even under extreme winter weather conditions in a 1-in-35 year cold peak day, the SoCalGas/SDG&E storage and receipt capacities are more than adequate to meet such extreme conditions.

SoCalGas' System Current Utilization Rate Under Peak Day Conditions

| | 1-in-10 Demand ¹ | 1-in-35 Demand ² | Receipt + Withdrawal Capacity ¹ | 1-in-10 Utilization Rate | 1-in-35 Utilization Rate |
|------|--------------------------------|--------------------------------|--------------------------------------------------|--------------------------------|--------------------------------|
| 2010 | 5,162 | 3,509 | 7,070 | 73% | 50% |
| 2015 | 5,239 | 3,529 | 7,070 | 74% | 50% |
| 2020 | 5,066 | 3,497 | 7,070 | 72% | 49% |
| 2025 | 5,087 | 3,530 | 7,070 | 72% | 50% |
| 2030 | 5,150 | 3,597 | 7,070 | 73% | 51% |

¹ Serving both core and noncore.

² Serving core only.

In conclusion, the SoCalGas/SDG&E gas storage, pipeline receipt and pipeline delivery capacities are more than adequate to meet core 1-in-35 year peak day and 1-in-35 cold year demand. In addition, SoCalGas/SDG&E have more than adequate storage and transmission capacities to meet 1-in-10 year peak day and cold year conditions for all customers, core and noncore. These are the CPUC's planning criteria, and as gas demand changes, the utilities will enhance their capacities to meet all future demand growth in compliance with these planning guidelines.

Yours sincerely,

