

October 11, 2011

California Energy Commission
Docket Office, MS-4
Re: Docket No. 11-IEP-1K
1516 Ninth Street
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DOCKET	
11-IEP-1K	
DATE	Oct. 11 2011
RECD.	Oct. 11 2011

Re: California Energy Commission Docket No. 11-IEP-1K Joint Committee Workshop on Natural Gas Market Assessment Reference Case and Results

To Whom It May Concern:

On September 27, 2011, the California Energy Commission (“Energy Commission”) held a Joint Committee Workshop on Natural Gas Market Assessment Reference Case and Results (“the Workshop”). The Workshop was held as part of the Energy Commission’s 2011 Integrated Energy Policy Report proceeding (“2011 IEPR”). Southern California Edison Company (“SCE”) participated in the Workshop. SCE appreciates the opportunity to provide these written comments on the Workshop and the Draft Staff Report 2011 Natural Gas Market Assessment: Outlook (“Draft Report”).¹

SCE understands that analyzing the natural gas market is challenging and agrees that use of the Rice University model and development of the reference case is a reasonable approach. SCE supports beginning with a global view of natural gas markets. Global and national trends in the natural gas market can and do impact the California market.

The reference case provides a reasonable base market outlook, from which further scenarios can be analyzed. Shale gas development stabilizes many of the market drivers that have historically moved natural gas quantities and prices up or down in all regions. For example, though the potential to produce shale gas in California or neighboring regions is low, shale gas produced in Texas, Midwest and Appalachian regions can impact prices and gas flows to California.

SCE suggests that the Draft Report include an appendix with the macroeconomic parameters and values of other drivers in the reference case and the scenario cases. Providing a list of values for all the variables will help stakeholders to better understand the market prices and flow trends resulting from this analysis.

¹ CEC-200-2011-012-SD September 2011.

While there was a significant amount of discussion during the Workshop, no clear steps were identified to respond to the questions raised by parties and to move towards a market outlook that all stakeholders can generally support. SCE recommends that the forecast and analysis developed through this process not be used in any formal proceeding until it has been adequately vetted by the stakeholder group. Additional stakeholder meetings with Energy Commission staff to discuss potential solutions to questions asked at or prior to the workshop before the Draft Report is adopted would be beneficial.

To ensure that stakeholders have an opportunity to review, understand and accept or dispute the natural gas price forecast and the results of the scenarios, the Energy Commission should attempt to respond to the questions and concerns that were raised by stakeholders.

The Energy Commission staff raised the following questions at the end of the Workshop. SCE provides its responses below.

1. What issues or problems do we see with scenarios?

- 1.1. The range of prices for the different scenarios appears too narrow. The scenarios do not aid in determining drivers and consequences of a market depicting high and low prices in the U.S. This point was raised at the Workshop, but there was no decision on what action would be taken to resolve the issue.
- 1.2. The resource supply curve is very flat up to around 600 trillion cubic feet (“Tcf”). To address a high price environment, one assumption could be to reduce the amount of available resources along this region of the supply curve. Changes in operational costs and environmental impacts affect not only the cost but also the quantity of gas that can be produced. This will raise the curve upwards to reflect the higher costs and also shift the curve left to account for decreased supplies that can be produced at a given cost. In the current scenarios, the more expensive resource was trimmed off but the quantity and cost of the ‘low hanging fruit’ remained the same (large enough to not affect the low priced supplies) in both the cases, possibly maintaining the narrow band over the forecast horizon.
- 1.3. Given current market conditions, the significant increase in Henry Hub prices (nearly 50%) from 2011 to 2012 seems unreasonable.
- 1.4. The California high and low demand scenarios will not significantly change the model’s results for several reasons. First, changing assumptions in California demand do not strongly influence the Henry Hub or overall U.S. prices and flows. Capacity assumptions for pipelines entering California do influence prices, but only to a limited extent due to the assumption of average annual flows in the Rice Model. Second, the Rice Model does not capture monthly variation or seasonal influence, which is essential to capturing the price effects of changing demand assumptions in the State. For example, removing 20% of the State’s

generation capacity would affect prices in summer months more than in winter months.

- 1.5. The significance of the pressure reduction scenario is limited because pressure reduction largely affects daily operations, which are influenced by storage operations to a large extent. For instance, if storage inventory is high, the pressure reduction and consequent lower flows on pipelines will be complemented by stored gas. Therefore, the modeling exercise without the influence of storage and seasonal variations does not add value to the final conclusions.

2. What other scenarios would be of value? Why?

- 2.1. SCE believes that the total number of scenarios is sufficient, but would like to see the Energy Commission publish the results of any sensitivities that were performed to test the variables used in the scenarios. This information would support understanding the impacts of each variable and their influence in the scenario results.

As always, SCE appreciates the opportunity to submit its comments. Feel free to contact me regarding any questions or concerns.

Sincerely,

/s/ Manuel Alvarez
Manuel Alvarez, Manager
Regulatory Policy and Affairs
Southern California Edison Company