

July 31, 2013

**VIA E-MAIL DOCKET@ENERGY.
CA.GOV**California Energy Commission
Dockets Office, MS-4
Re: Docket No. 13-IEP-1K
1516 Ninth Street
Sacramento, CA 95814-5512

Re: 2013 Integrated Energy Policy Report: Lead Commissioner Workshop on 2013 IEPR Natural Gas Issues, Trends, and Forecast Scenarios – Comments of Pacific Gas and Electric Company

I. INTRODUCTION

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to provide comments on the California Energy Commission's (CEC) July 17 Staff Workshop titled "Lead Commissioner Workshop on 2013 IEPR Natural Gas Issues, Trends, and Forecast Scenarios" (July 17 Workshop). The July 17 Workshop is the third time the CEC's natural gas price forecast has been addressed during the 2013 Integrated Energy Policy Report (IEPR) proceeding and PG&E appreciates this open and collaborative process.

While the July 17 Workshop addressed a number of important topics, the purpose of PG&E's comments are: 1) to express its support for the updated 2013 IEPR Common Cases; 2) discuss discrepancies between recent consumption levels and the natural gas forecast for electric generation (Section III); 3) to highlight PG&E's concerns with CEC's assumptions around Combined Heat and Power (CHP), mentioned at the workshop (Section IV); 4) to discuss the effect of non-bypassable charges on CHP in California (Section V); and 5) to affirm PG&E's commitment to long term pipeline contracts to reliably serve its customers (Section VI).

II. PG&E SUPPORTS THE 2013 IEPR COMMON CASES

In past comments,^{1/2} PG&E had expressed its view that the CEC's long-term natural gas price forecast was too narrow and recommended that the CEC better reflect the underlying uncertainty in long-term natural gas prices.

¹ Plummer, M. (2013). 2013 Integrated Energy Policy Report: Staff Workshop on Natural Gas Issues and Forecast Scenarios – Comments of Pacific Gas and Electric Company. Pacific Gas and Electric Company.

At the July 17 Workshop, Robert V. Kennedy briefed stakeholders on the CEC's updated 2013 IEPR Common Cases, which now incorporates a wider range of long-term natural gas prices and adjusted error bands. Specifically, the CEC's initial forecast showed the high-to-low price range staying between approximately \$6.50 and \$5.70 out to 2035 (in 2010 dollars). The updated natural gas price forecast now shows a wider range, with gas prices staying between approximately \$7.49 and \$5.14 per MMBtu in 2010 dollars. Additionally, the upper and lower error bands further extend this range.

Based on these changes, PG&E supports the 2013 IEPR common cases (i.e., Low-, High-, and Reference-Cases) and believes they will serve as an appropriate basis for the 2013 IEPR. PG&E would like to thank CEC staff for their patience, diligence, and expertise in addressing these important issues.

III. THE CEC SHOULD RECALIBRATE ITS NATURAL GAS USE FOR ELECTRIC GENERATION FORECAST

At the July 17 Workshop, Angela Tanghetti presented on the California and Western Electric Coordinating Council (WECC) preliminary natural gas use for electric generation. Overall the forecast for California shows a drop in demand during the 2014 to 2020 period, due to an increase in renewables penetration. This is reasonable and a directionally correct result. However, the gas demand level in the forecast is very high. The Energy Information Administration shows approximately 600 to 800 billion cubic feet (Bcf) per year of natural gas consumption for electric generation from 2009 to 2012,² while CEC's Mid-Case forecast is above 800 Bcf for each year in the 2014-2024 period. Therefore, PG&E suggests the CEC recalibrate its forecast to align with recent consumption levels.

IV. CHP ASSUMPTIONS OVERESTIMATE THE POTENTIAL FOR CHP IN CALIFORNIA

In her presentation, Ms. Tanghetti also noted that the CEC used CHP assumptions from the 2012 ICF International, Inc. (ICF), study titled "Combined Heat and Power: 2011-2030 Market Assessment." While exact numbers were not cited, these figures appear to be the same CHP assumptions used in the CEC's Preliminary California Energy Demand 2014-2024 (2013

Retrieved from http://www.energy.ca.gov/2013_energypolicy/documents/2013-04-24_workshop/comments/PGandE_Comments_2013-05-08_TN-70694.pdf

² Plummer, M. (2013). 2013 Integrated Energy Policy Report: Comments of Pacific Gas and Electric Company on the Lead Commissioner Workshop on Economic, Demographic, and Energy Price Inputs for Electricity, Natural Gas and Transportation Fuel Demand Forecasts. Pacific Gas and Electric Company. Retrieved from http://www.energy.ca.gov/2013_energypolicy/documents/2013-02-19_workshop/comments/Pacific_Gas_and_Electric_Company_Comments_on_Workshop_on_Economic_Workshop_2013-03-05_TN-69834.pdf

³ U.S. Energy Information Administration. (2013, June 28). California Natural Gas Consumption by End Use. Natural Gas Consumption by End Use. Retrieved July 29, 2013, from http://www.eia.gov/dnav/ng/ng_cons_sum_dcua_sca_a.htm

CED) forecasts. In the High-, Mid-, and Low-Demand Scenarios, the 2013 CED assumes that total CHP for the state will be 1,400 megawatts (MW), 3,000 MW, and 4,800 MW respectively in 2020.

As stated in previous comments to the CEC,⁴ the ICF Market Assessment overestimates the potential for CHP in California. In summary, ICF based its technical potential analysis on usage patterns and business type, but ignored fundamental physical barriers, such as space limitations or age of the building. Moreover, the Market Assessment relies on assumptions for load factors and thermal usage that do not reflect real-world performance of CHP installations observed from the Self Generation Incentive Program and Qualifying Facility programs.

PG&E recommends that the CEC instead refer to the California Public Utilities Commission (CPUC) 2012 Long-Term Planning Process (LTPP) Track-2 scenario assumptions, which provide a more reasonable estimate of new CHP in the state.⁵ The LTPP scenarios consider the ICF base case as a “Mid case of new CHP” and the ICF Mid case as a “High case of new CHP.”

V. CHP ALREADY ENJOYS NUMEROUS EXEMPTIONS FROM EXISTING DEMAND, STANDBY, AND NON-BYPASSABLE CHARGES AND ADDITIONAL EXEMPTIONS SHOULD NOT BE GRANTED

The July 17 Workshop included a panel on natural gas demand, which, among other issues, discussed CHP. During the discussion, panelists noted that demand, standby, and non-bypassable charges (NBCs) are an unfair barrier to adopting more CHP in California. This is inaccurate.

The Legislature (and the CPUC) historically established these NBCs because of electric industry restructuring (e.g., the Nuclear Decommissioning charge or the Competition Transition Charge [CTC]). The CTC recovered the above-market costs of Qualifying Facilities (including CHP). Similarly, as a result of the failure of electric restructuring in California, the Power Charge Indifference Adjustment and Department of Water Resources Bond Charge were established. Other NBCs have been established to implement policies that were imposed on investor-owned utilities, but not on other load-serving entities (i.e., energy service providers, publicly-owned utilities, community choice aggregators) to ensure that everyone pays their fair share of costs benefitting everyone on the system. Public purpose program charges support low income customers and energy efficiency programs that are at the top of the loading order.

⁴ Winn, V. J. (2012). 2012 Integrated Energy Policy Report Update: Combined Heat and Power: Comments of Pacific Gas and Electric Company on Combined Heat and Power in California. Pacific Gas and Electric Company. Retrieved from http://www.energy.ca.gov/2012_energypolicy/documents/2012-02-16_workshop/comments/Pacific_Gas_and_Electric_Company_Comments_2012-03-12_TN-64134.pdf

⁵ Please see: Energy Division, 2012. 2012 Energy Division Straw Proposal on LTPP Planning Standards (California Public Utilities Commission), website: <http://www.cpuc.ca.gov/NR/rdonlyres/502D2DA7-A160-4652-88E5-570AC9B0822B/0/2012LTPPStrawProposalvFinal2.doc>

While PG&E agrees that demand charges, standby charges, and NBCs should be periodically reviewed, these charges reflect real costs and should not be modified without appropriate cost-of-service analysis. Standby service is of value to the customer with CHP and reflects the fact that the grid stands ready to meet the customer's load in case of planned or unplanned failure of the CHP facility. Demand charges recover at least some of the sunk costs that the utility incurs to provide grid support for the customer's real demand. All of these costs are incurred whether or not the CHP customer contributes their share.

VI. PG&E'S COMMITMENT TO LONG TERM PIPELINE CONTRACTS

Additionally, the natural gas demand panel at the July 17 Workshop discussed the ability of national and state natural gas infrastructure to accommodate current and projected demand in California. PG&E holds long term, capacity contracts with interstate pipelines connecting gas supply basins to the California border. Firm pipeline capacity, together with storage and supply diversity, provides PG&E with a robust supply portfolio to reliably serve PG&E's core customers and fuel our natural gas-generation plants. These pipeline contracts have been approved by the CPUC.

VII. CONCLUSION

PG&E is committed to continuing to work with CEC Staff and stakeholders throughout the 2013 IEPR proceeding to assess natural gas price issues and forecasts.

Sincerely,

/s/

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