

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to
Establish Policies and Rules to Ensure
Reliable, Long-Term Supplies of
Natural Gas to California.

Rulemaking 04-01-025
(Filed January 22,
2004)

**REPLY COMMENTS ON CALIFORNIA NATURAL
GAS UTILITIES' PHASE 1 PROPOSALS –
CALIFORNIA PUBLIC UTILITIES COMMISSION
DOCKET R.04-01-025**

April 6, 2004

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Representing:
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REPLY COMMENTS ON CALIFORNIA NATURAL GAS UTILITIES' PHASE 1 PROPOSALS – CALIFORNIA PUBLIC UTILITIES COMMISSION DOCKET R.04-01-025

Ratepayers for Affordable Clean Energy (“RACE”) submits its reply comments on the California Natural Gas Utilities’ Phase I Proposals to the California Public Utilities Commission in the above-referenced proceeding according to the March 23, 2004 deadline.

1. Offshore Liquefied Natural Gas (“LNG”) Terminals

RACE Coalition members feel that our position on LNG was adequately explained in Addendum E of our March 23 comments, under the title of “Local Impacts.” Border Power Plant Working Group, a member of RACE, presented a Power Point presentation at the California Public Utilities Commission (“CPUC”) and California Energy Commission (“CEC”) 2006-2016 Natural Gas Supply Workshop (December 9-11, 2003) that addresses the offshore issue. This Power Point is attached as Exhibit A to this document.

2. Pacific Gas & Electric (“PG&E”) Responses to RACE’s March 9 Data Requests¹

RACE’s data request to PG&E received few actual answers, and in particular, as with SDG&E/SoCalGas, PG&E indicated it could not answer our questions related to the impacts of energy efficiency or Community Choice Aggregation on the forecasted demand for new added gas-fired generation until June, when it will present its electricity procurement plan to the

¹Pacific Gas & Electric, “PG&E’s responses to RACE March 9th data request,” March 26, 2004.

Commission.

Response to RACE Question 18:

18.a. The core and non-core non-electric generation natural gas demand projections in PG&E’s response to Question 1 in OIR R.04-01-025 “do not include any explicit adjustments for demand reduction programs” but do “implicitly project future demand reduction efforts at the historical levels.”

18.b. “Because the demand forecasts do not include explicit projections of demand reduction efforts, it is not possible to quantify the funding levels associated with those efforts.”

In other words, PG&E did not explicitly adjust the demand forecasts to reflect natural gas savings from existing or expanded natural gas efficiency efforts – but because their future demand projections are based on historical demand, to the extent that past demand was reduced due to energy efficiency efforts, future demands also would be reduced. So there were probably some minor reductions in the PG&E forecasts due to energy efficiency efforts but they can’t say how much.

Response to RACE Question 22:

“PG&E has no analyses, assessments, evaluations or studies prepared by or for PG&E since January 1, 2003 regarding natural gas that potentially could be saved in 2006, 2016, or any year in between, as a result of existing or expanded electric energy efficiency efforts.”

In response to RACE Question 23,

“Provide copies of the analyses, assessments, evaluations or studies prepared by or for PG&E since January 1, 2003 which projected, examined or quantified the amounts of natural gas that potentially could be saved in 2006, 2016 or any year in between, as a result of the repowering of existing electric generating facilities”

PG&E answered:

“PG&E owns only two gas-fired generating facilities, namely, Humboldt Bay and Hunters Point. PG&E has no plans to re-power either facility and has no analyses, assessments, evaluations or studies prepared by or for PG&E since January 1, 2003 regarding re-powering.”

In response to RACE’s Question 24,

“Provide copies of the analysis, assessments, evaluations or studies prepared by or for PG&E since January 1, 2003 which projected, examined or quantified the amounts by which electric utility procurement, and associated demand for the rate-basing of additional gas-fired electrical generation capacity, potentially could be reduced in 2006, 2016 or any year in between, as result of regional electrical load departures associated with “widespread adoption” of Community Choice Aggregation pursuant to Chapter 838 of 2002, as required by California Public Utilities Commission’s January 22, 2004 electric utility procurement decision, D.04-01-046 of R.01-10-024 on p.24, p.103, and Finding of Fact #49 on p.192 and Conclusion of Law #32 on p.197.”

PG&E answered:

“PG&E believes the intended reference in this question is to Decision (D.) 04-01-050, which refers to “Community Choice Aggregation”. The requirement there is in connection with PG&E’s next Long-Term Procurement Plan, which the Commission describes as being filed in June 2004. At this time, PG&E does not have an analysis addressing the issues raised in the question, but expects that it will comply with the planning directives of D.04-01-050 at the time its 2004 Long-Term Procurement Plan is filed.”

In other words, parties to R.04-01-025 will not have any data on the impacts of Community Choice Aggregation until after June 2004 when PG&E has filed its Long Term Electric Procurement Plan in R.01-10-024, parties respond and the Commission arrives at an estimate. In the meantime, PG&E, following SDG&E/SoCalGas, has proposed that the Commission allow it to acquire permits from stranded gas-fired power plant permit holders, and build new utility-owned gas-fired generation while rate basing the new investment, reversing a state policy of separating ownership of power stations and utilities. ²

²Christopher Martin, “PG&E seeks regulated power plants,” Bloomberg News, March 24, 2004.

"We want to invest in new cost-of-service generation," Chief Executive Robert D. Glynn Jr. said March 24 at an investor conference in New York sponsored by Morgan Stanley and broadcast on the Internet. "It's a business we know how to do." PG&E would like to build regulated power stations funded by its free cash flow, Glynn said. "We don't know if policy makers will provide us the opportunity," clearly referring to R.01-10-024: "We'll know this year."

Again, the fact that the outcome of R.04-01-025 is heavily impacted by the outcome of R.01-10-024 underscores the need for evidentiary hearings in R.04-01-025.

3. Variability of Forecasts Showing Need for LNG

A number of R.04-01-025 parties agreed in their comments that gas demand forecasts are far from certain, and recommend that the Commission be cautious and least-cost based in its approach to LNG.

a. Transwestern Pipeline Company

In its Comments, Transwestern Pipeline alludes to the wide range of projections made by the U.S. Government relative to future gas demand:

“Regarding forecasts for 2015, the EIA has compiled a comparison of projections of the natural gas wellhead prices, production (lower forty-eight states), consumption, and LNG usage... Within a group of eight forecasts from various sources, projections for domestic dry gas production in 2015 ranged from 17.9 to 21.2 trillion cubic feet, projections for consumption ranged from 26.7 to 31.1 trillion cubic feet and LNG usage ranged from 2.5 to 4.75 trillion cubic feet. The wide range of these projections illustrates the difficulty in predicting the future balance of natural gas demands and supplies and the need for LNG supplies. Further, given the recent cancellation of the Marathon and Calpine LNG projects, it may be prudent to carefully consider the viability of the competing LNG projects before investing in supporting infrastructure....Indeed, California previously reacted to erroneous forecasts of dramatic declines in southwest production and their supposed imminent decline to justify a need for LNG supplies. In the early to mid-1970s, natural gas production in the southwest was declining such that plans were made to use

the El Paso pipeline to send oil east. California's Canadian supplies were also thought to be a risk due to the expectation that Canada would curtail exports to the U.S. to ensure adequate supplies for the domestic Canadian market. In response to these forecast declines in southwest and Canadian natural gas supplies, plans for the use of LNG gas were made. Specifically, LNG terminals were planned for Los Angeles harbor, Oxnard and at Point Conception. Alaskan or Indonesian gas supplies would be liquefied and sent to these terminals, displacing gas from New Mexico and Texas. It was expected that the remaining southwestern gas production would be sent to eastern states. Like many projections, the imminent need to displace Southwest and Canadian gas with LNG and Alaskan supplies twenty-five years ago proved dramatically inaccurate.”³

As Transwestern comments “given the recent cancellation of the Marathon and Calpine LNG projects, it may be prudent to carefully consider the viability of the competing LNG projects before investing in supporting infrastructure.” It would be prudent to carefully consider both the need for and viability of the specific LNG projects before committing ratepayers to pay for any related infrastructure improvements. Given this uncertainty, the natural gas utilities shouldn't be used to bail out projects that might otherwise fail on their own.

The situation might not be as dire as it appears today. This is not to say that the Commission shouldn't act in a prudent and deliberative manner. The Commission needs to act expeditiously but it should not rush to grant the natural gas utilities the significant changes in traditional regulatory oversight and policies that they are requesting. The Commission also needs to act expeditiously to expand spending on both electricity and natural gas energy efficiency programs and to implement Community Choice Aggregation.

b. Office of Ratepayer Advocate Recommendation (“ORA”)

The ORA emphasizes that, given the uncertainty about demand, any system expansion “should

³ *Comments of Transwestern Pipeline Company on Phase 1 Proposals*, at pages 13 and 14.

be done in the most efficient and least-cost manner”:

“For purposes of this proceeding, ORA recommends that the Commission adopt a policy whereby proposed system expansion associated with LNG projects be filed through the application process. This will allow evaluation of expansion proposals on a case-by-case basis....Given that the SoCalGas system has substantial levels of slack capacity, which is expected to extend into both the mid-term and long-term, any system expansion in this period should be done in the most efficient and least-cost manner.”⁴

c. Comments by Canadian Association of Petroleum Producers (“CAPP”)

CAPP contradicts claims in the Order Instituting Rulemaking suggesting that the Western Canadian Sedimentary Basin might not continue to be a long-term dependable source of gas supply for California. CAPP Claims that recent investments have the potential to arrest the recent production declines seen there:

“The primary purpose for the Canadian Association of Petroleum Producer’s comments in this proceeding is to allay any concerns that the Western Canadian Sedimentary Basin (WCSB) might not continue to be a long-term dependable source of gas supply for California....The WCSB is currently in a period of transition. Producers are now responding to price signals and accelerating the shift in their exploration efforts from the low cost/low production shallower plays in the basin to the riskier yet more prolific deeper plays. A variety of lead indicators confirm that this trend is taking place and a number of companies have specifically announced large capital expenditures in regions associated with deep basin plays. This shift in activity has the potential to arrest the recent production declines seen in the WCSB.”⁵

d. RACE Reply

In our Comments filed on March 23, RACE indicated that virtually all forecasts of increases in California gas demand are attributable to as yet unbuilt gas-fired power plants that are not needed and in all likelihood will never be built. As several respondents repeated the claim that

⁴ *Phase 1 Comments of the Office of Ratepayer Advocates*, at page 16.

⁵ *Response to the Canadian Association of Petroleum Producers to Phase 1 Proposals and Data Response of Respondent Pacific Gas and Electric Company*, at page 1.

California needs LNG supplies, we wish to further clarify why it is that California core gas customers do not need a LNG terminal.

California has, since the crisis of 2000 to 2001, seen a flurry of plans to expand, upgrade and overhaul its supply sources for natural gas. While California's projected growth in gas demand between 2000 and 2010 was originally projected to be around 17 percent, we have already seen an expansion of interstate import capacity of over 25 percent.

Enormous expansions are still being proposed for California's natural gas capacity that, in total, dwarf what has already been built. This includes adding another 5840 million cubic feet per day in interstate pipeline capacity, and up to 4700 million cubic feet per day in liquid natural gas (LNG) facilities that companies hope to site inside the state. Large new LNG facilities just below the Mexican border will also introduce additional supplies imported into California. Significant new imports from any source would, to put it simply, provide gas that may not be needed. To the extent that there is already more than enough gas available to supply all foreseeable need, this new gas will be used not to serve gas customers but, rather, to subsidize gas fired power plant developers (if we accept the 20% drop in commodity prices resulting from LNG promised by SDG&E/Cambridge Energy Resource Associates) who otherwise present uncompetitive power prices and therefore cannot find financing for unneeded gas-fired power plants - and investor-owned utilities, including Sempra and more recently PG&E, who own affiliate electric companies that are actively now seeking to build and rate base new added gas fired power plants in the Commission's electric procurement proceeding, R.01-10-024.

Totaling the gas capacity additions already built, expected and proposed from 2001 forward

include the following:⁶

| EXPECTED AND PROPOSED GAS DELIVERY CAPACITY IN CALIFORNIA | | | |
|--|---------|----------|----------------------------------|
| Source | Date by | MMcf/day | Added to base year - % over 2001 |
| Baseline Pipeline Delivery | 2001 | 6630 | |
| Added pipeline capacity | 2003 | 1680 | 25.3% |
| Proposed pipeline capacity | 2006+ | 5840 | 88.1% |
| Expected LNG in Mexico | 2007 | 2500 | 37.7% |
| Proposed LNG in California | 2008 | 4700 | 70.9% |
| Total of possible additions | 2007 | 14720 | 222.0% |

Consumption Falling

The actual consumption of gas in the state, following a rapid expansion from 1999 to 2001, collapsed equally rapidly in the following two years. In 1999, California consumed an average of 6132 million cubic feet per day. By the next year consumption rose 7 percent, but even this was below the pipeline capacity. Projecting into the future, the California Energy Commission in January, 2001 issued a White Paper on Natural Gas stating:

“Beyond the year 2000, California’s natural gas use over the next decade is expected to increase from 6,400 MMcfd in 2000 to 7,500 MMcfd by 2010, a 1.5 percent increase on

⁶Sources: California Energy Commission Internet documents, [http://www.energy.ca.gov/naturalgas/Interstate Natural Gas Pipeline Delivery Capacity to California.htm](http://www.energy.ca.gov/naturalgas/Interstate%20Natural%20Gas%20Pipeline%20Delivery%20Capacity%20to%20California.htm) and *Pending Natural Gas Infrastructure Projects*, updated January 13, 2004, pdf file.

an annual basis.”⁷

This implied 17 percent over the decade. This is half again a larger rate than the national projections of the Department of Energy, which show natural gas use growing by 11.2 percent over the same period for the U.S. as a whole. This reflects, in part, the greater than average expected population and economic expansion in California. But other assumptions are hidden behind the face of the bald statistics, which we will discuss later.

One must, of course, observe that the 1999 to 2000 California natural gas consumption growth was significantly greater than expected. But there were numerous regional anomalies in natural gas supply, demand and prices for that year. Of great importance was the fact that hydropower reservoirs were substantially below normal, and that the state relies on this for a major part of its electrical supply. Also very significant were heavy reliance on spot prices while supplies were strained, and attempts to game the market, which further drove up prices. Thus the statistical changes from 1999 to 2000 were in no sense typical.

| CALIFORNIA NATURAL GAS CONSUMPTION | | | | |
|---|---------------------------------|----------------------------------|--------------------------------|---------------------------------|
| year | total deliveries millions cf | daily consumption mmcf/day | growth in daily use: amount | growth in daily use: percent |
| 1998 | 2,309,883 | 6,328 | | |
| 1999 | 2,339,521 | 6,410 | 81 | 1.28% |
| 2000 | 2,508,797 | 6,873 | 464 | 7.24% |
| 2001 | 2,464,565 | 6,752 | (121) | -1.76% |
| 2002 | 2,273,322 | 6,228 | (524) | -7.76% |

⁷CEC, “Pending Natural Gas Infrastructure Projects, Jan 13, 2004, p.4.

Perhaps it is not surprising that the traumatic nature of the events of 2000 - 2001 seem to be driving the urge to expand capacity and control prices. But they must not override facts.⁸

The decline in gas usage was even larger than the buildup. And while figures for 2003 are only beginning to be looked at, preliminary evidence from the CEC shows a continuing slump in demand⁹ - thus a market that does not appear to be growing - at the very moment the gas industry is proposing a myriad of new proposals to expand sales of natural gas. This underscores the importance of evidentiary hearings requested in our March 9 Motion to Modify Schedule in order to ascertain the actual need for new capacity.

Capacity versus supply

Those parties claiming a need for new capacity attempt to distinguish between the capacity to deliver gas and the actual supply of it. In effect, they argue that just because we have all these new pipelines does not mean there will be gas to put in them. They maintain that new supplies are needed, and even sought for by the California Energy Commission, in order to “promote gas-on-gas competition,” to “enhance supply diversity” and to “avoid the kind of high price spikes in gas costs we saw just a couple of years ago.”

Gas on gas competition might be considered sound reasoning until one starts to look more deeply at the problem. An examination shows that each of these arguments are based upon a common but incorrect assumption: that the principal problem is one of supply.

The most fundamental problem, which RACE pointed out in our March 23 Comments, is California’s growing over reliance on natural gas. This was aggravated by over reliance on gas

⁸Source: www.eia.doe.gov/pub/oil_gas/natural_gas/data_publications/natural_gas_annual/current/pdf/table_030.pdf

⁹Telephone conversation with Andrea Gough, California Energy Commission, April 5, 2004.

for electricity generation. Gas on gas competition, growing gas supplies, and building more gas fired power plants do not solve this problem, they would more likely exacerbate it, for several reasons:

- it further drives up our already too great dependence on gas;
- it diverts attention from solving the market and physical system deficiencies by simply throwing more gas supplies at the problem. This leaves us without protection against gaming of the market.
- it does not help with the more specific infrastructure needs that have nothing to do with finding new supplies, and would make new supplies unnecessary for years;
- perhaps most importantly, rate basing added gas supplies directly conflicts with current efforts to increase conservation and clean, renewable energy.

This last goal is embraced by the California Energy Commission. And their new numbers for 2003 gas consumption show it to be increasingly unlikely that significant new imported supplies will be needed by the end of the decade. Even in the case of meeting unanticipated higher demand for home heating, improvements in system bottlenecks, as discussed below, would address any foreseeable problems in gas demand far more effectively than major supply additions.

The larger argument, that the capacity expansions cannot be translated into supply, flies in the face of a number of the significant facts discussed in this article showing how they can, if the need arises. And it is disingenuous for a company to imply that *their proposed LNG facility represents real supply, whereas the other capacity expansions overwhelmingly do not*. Obviously none of the businesses planning investments in capacity would do so without some intention to boost sales of gas, and rather significantly, since the infrastructure is not inexpensive. In spite of

their argument, new capacity usually translates into new supply.

The argument is also somewhat misleading. It is true that expansions in capacity to deliver gas *could possibly* not result in increasing gas supply. But this is not the norm. Understandably, natural gas facility vendors claim that the solution is more gas, which they would like to sell. The mental picture is that we would need gas to fill empty pipelines. Yet, if the pipelines built and proposed should happen not to be fully utilized, it would far more likely mean just the opposite of what the gas “supply inflation” argument implies: not that more gas was needed, but that demand fell short of expectations.

Capacity is normally, in the U.S. as a whole, constrained by its economic usefulness. In other words, it makes no sense to invest money in expansions for which there will be no foreseeable use. In this sense, supply and capacity are functions of each other. Historically, for the US, the expansion of pipelines and other delivery infrastructure indicates expected increase in supply, and vice versa. The function varies over time, to be sure, as gas markets evolve and the ways in which gas use changes. In general though, there is a national proportion of capacity that translates into supply that varies quite little over a decade. During the 1990’s it rose in a gently sloping line from 68 to 73% for interstate pipelines. This is just as we would expect, and it contrasts markedly from other market parameters: such as price, demand, imports, etc, which are famously volatile for natural gas.

The relation between capacity and delivery of supply is thus rather predictable, especially over the long term, and on a large scale. And the overall macro-trend is the opposite of what the supply inflation argument implies. Instead of growing capacity leading to empty pipes, it seems to presage an even faster growth in gas supplies. *Thus capacity expansion was actually exceeded*

by growth in delivered gas during the 1990s, a trend that is expected to continue with almost mathematical rigor for the next decades:

“The Energy Information Administration projects that inter regional pipeline capacity (including imports) will grow at an annual rate of only about 0.7 percent between 2001 and 2020, compared with 3.3 percent between 1990 and 2000. But natural gas consumption will grow at more than twice that rate, 1.8 percent per year, reaching an additional 25 billion cubic feet per day by 2020.”¹⁰

Thus, the pipelines already built can deliver more gas than they currently are. This is the most important point: the increase in pipeline capacity, from the source to the delivery points, really can and does translate into new available supply, but only if demand rises. And for California this does not seem likely in the near future, for the reasons in this and our March 23 Comments.

Regional and local variables in the Capacity-Delivery equation

We will now examine in detail how current interstate pipelines appear fully capable, not only of meeting current demand, but also any contingencies over the course of this decade. Pipeline capacity is a complex and intricate balancing act between available supply and user demand. To understand the dynamics of how this works in practice, one must move from the national to the regional and state level, where more variables enter into the picture. Here one sees examples of large variations in pipeline utilization. In 1997, usage of inter regional capacity varied from 50% to 96%. One of the most striking examples of underutilized pipe was in shipments from the region around Texas to the Pacific West, particularly California. After a huge effort to build up capacity in the early 90s the usage of the pipelines fell from 90% in 1990 to only 50% by 1997.

¹⁰ **Energy Information Administration Natural Gas 1998: Issues and Trends**, chapter 5.)

By the late 1990s capacity on these pipes were not in short supply, and this remained true through most of the gas crisis in Summer of 2000, which had quite other causes.

The decline in capacity usage was in spite of huge discoveries of gas in the Gulf of Mexico that could easily have been sent west. But this new supply was not brought to the western market.

Why?

Only a limited amount of new pipeline capacity onshore is being added to accommodate the new production [in the Gulf of Mexico]. Currently existing capacity within and exiting the [Southwestern] region is not being fully utilized throughout the year. Thus until overall demand for space on those lines rises substantially, any major expansion possibilities will be held in abeyance.¹¹

In other words, there was not enough demand in the West to warrant new capacity expansion to send the newly available gas out of the region, especially because the existing capacity was underutilized.

When demand does rise, it is easy enough to up shipments by removing bottlenecks. One example, also from the 1990s, was in the Rocky Mountain region, which had significant pipeline capacity on the major regional and interstate pipelines, but not to the supply sources. In this case the pressure of demand increases in the Midwest and East drove construction of expansions in local systems to tap the supply in the ground.¹²

On the delivery end, major expansions in interstate pipeline capacity to California in the 1990s, and again in 2003, could be easily used by removing the bottleneck in pipelines at the state border. The California Energy Commission reported that as much as 5% of the available gas in

¹¹Emphasis added, DOE, 1997 report on Natural Gas, Chapter 5, Pipeline Development., p. 9.

¹² Ibid., p10.

2000 was shut out of the state for this reason.

“While natural gas pipeline delivery capacity to California is 7,000 MMcfd, there is less capacity available within the state to utilize that capacity. Currently there is a 350 MMcfd capacity imbalance at Topock and Needles, major points of interconnection between El Paso and SoCalGas, PG&E, and Mojave Pipeline. Even with projected growth of delivery capacity to 2002 increasing to 7,915 MMcfd, staff is unaware of any proposals seeking to match delivery and receipt capacity at the California border.”¹³

In other words, the gas is sent to the border of California, but the pipelines inside the state are not large enough to receive all of it. The quantity of gas blocked from entering in 2001 was more than enough to supply the entire city of San Francisco. With the subsequent expansion of the out-of-state pipeline, even more gas is available, should the Commission decide to make it available. Eliminating the bottlenecks on the California/Arizona border would cause a major increase in the amount of gas available to the state.

Equally significant are efforts to stabilize the state’s gas distribution system in “real time”. At some times of the day, and seasons of the year, gas demand can vary quite widely. It is the peak of demand that typically causes the greatest problem, and almost never the ability to deliver the total annual amount of required gas. This was certainly the case in 2000 in California. The entire distribution system has to be sized to accommodate the highest demand. But rather than expand every part of the system, which would be very expensive, artificial underground gas reservoirs are commonly placed in strategic locations in the network to help balance the highs and lows. When demand is low, the reservoirs take on supplies, which they disgorge when demand is high. The larger the reservoir, the greater the balancing capacity.

¹³ CEC, 2001 Natural Gas White Paper, p. 3.

The gas crisis was particularly acute in San Diego, because SDG&E had absolutely no storage capacity in its region. Contrast this to PG&E, which has the Wild Goose Storage Facility in Sutter County. In 2000 this field could hold 14 billion cubic feet (bcf) of gas.¹⁴ This was significantly expanded in 2003 to a total of 19 bcf. The pipeline allows 700 million cubic feet to be drawn out each day. Thus 10% of the entire state's usage for nearly a month could be supplied from this one storage alone. Other facilities in the state for storage are also being expanded.

But, the primary problem for SDG&E was the inadequacy of its gas distribution system. The CEC pointed this out in 2001:

“In the San Diego area, the natural gas infrastructure has reached the limits of its capability to deliver natural gas. For example, on a cold day in January 1999, natural gas demand in the SDG&E service area almost exceeded the delivery capacity. In addition, during the summer of 2000, SDG&E, on several occasions, barely met its customers gas demand without curtailing service. Then on November 13th and the four following days, SDG&E did not have sufficient pipeline capacity to meet all natural gas needs. Non core curtailment occurred.”

The report also noted that SDG&E had access to storage facilities outside its region, but that their distribution system was inadequate to handle these supplies.

These points clearly cast serious doubts on the notion that the solution to the state's gas problems is to get new supply. In fact, the problems in San Diego in 2000 had almost all to do with much more local and specific problems: bottlenecks, inadequate storage facilities, and undersized distribution networks. All of these simultaneously affected San Diego in 2000 to 2001, and were significant factors in the crisis.

¹⁴CEC White Paper, p.9.

In fact, any attempt to push new gas supplies, such as would come from LNG terminals, is absolutely useless without a major overhaul of the distribution system which cannot even handle what is already available to it. The irony is that these upgrades, if they were all performed, may very likely make any such new gas supplies unnecessary for some time into the future.

Conclusion

The gas procurement proceeding is in many ways a subset of the Commission's electric procurement proceeding, R.01-10-024. As RACE demonstrated in its March 23 Comments, future growth in natural gas demand is tagged to future growth in gas-fired electricity generation. In its 2001 White Paper, CEC predicted a flat year of no growth in gas demand for power plants in California from 2000 to 2001, followed by a decline of about 150 MM cf/day at the bottom of their predicted demand curve. This represented a drop in total demand of less than 2 ½ percent compared to the total state demand. But, in fact, *the full decline in gas use for the state in this period was nearly 10%.*

From there on CEC staff anticipated growth in electricity market demand and usage of natural gas through 2010, rising from 2414 MM cf/day to 3302 MM cf/day, or of 888 MM cf/day out of a total expected increase in gas demand of 1100 MM cf/day. But this growth in natural gas was mostly dependent on the expected growth in electrical generation. Today, three years later into the decade, the picture looks quite different. The White Paper based its projections for gas demand through 2010 upon the possibility that 21,106 MW of power plants would be built to generate electricity in California. Since that time 8311 MW have come on line, while the California Energy Commission only projects a net new generation of just over 2000 MW to be

added by August 2008 (after subtracting 1624 MW for expected retirement of old generators.) In addition, new proposals have dropped to almost zero, even as existing plans have been put on hold or dropped. Thus, we are likely to see only a fraction of the initially proposed generation come on line in this decade, with remaining loads either served by renewable resources or mitigated through energy efficiency and conservation technologies.

Respectfully,

April 6, 2004

Paul Fenn
Ratepayers for Affordable Clean Energy

CERTIFICATE OF SERVICE

I, the undersigned, hereby declare:

1. I am a citizen of the United States of America over the age of eighteen years. My business address is 4281 Piedmont Avenue, Oakland CA 94611.

2. On April 6, 2004, I caused service of :

**RATEPAYERS FOR AFFORDABLE CLEAN ENERGY REPLY
COMMENTS ON CALIFORNIA NATURAL GAS UTILITIES'
PHASE 1 PROPOSALS – CALIFORNIA PUBLIC UTILITIES
COMMISSION DOCKET R.04-01-025**

to be made by EMAIL upon the parties or their attorneys of record for R.04-01-025 and R.02-06-041, in accordance with the February 17, 2004 Ruling of Administrative Law Judges David Fukutome and John Wong Regarding Service of Documents for R.04-01-025.

I declare under penalty of perjury that the foregoing is true and correct.

Dated in Oakland, California, this 6th day of April, 2004.

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R.04-01-025 (p.27 of January 22, 2004 OIR)

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