California Public Utilities Commission



# Natural Gas and California

The California Public Utilities Commission (PUC) regulates natural gas utility service for approximately 10.7 million customers that receive natural gas from Pacific Gas and Electric (PG&E), Southern California Gas (SoCalGas), San Diego Gas & Electric (SDG&E), Southwest Gas, and several smaller natural gas utilities. The CPUC also regulates independent storage operators Lodi Gas Storage and Wild Goose Storage.

The vast majority of California's natural gas customers are residential and small commercial customers, referred to as "core" customers, who accounted for approximately 40% of the natural gas delivered by California utilities in 2008. Large consumers, like electric generators and industrial customers, referred to as "noncore" customers, accounted for approximately 60% of the natural gas delivered by California utilities in 2008.

The PUC regulates the California utilities' natural gas rates and natural gas services, including in-state transportation over the utilities' transmission and distribution pipeline systems, storage, procurement, metering and billing.

Most of the natural gas used in California comes from out-of-state natural gas basins. In 2008, California customers received 46% of their natural gas supply from basins located in the Southwest, 19% from Canada, 22% from the Rocky Mountains, and 13% from basins located within California.

Natural gas from out-of-state production basins is delivered into California via the interstate natural gas pipeline system. The major interstate pipelines that deliver out-of-state natural gas to California consumers are the Gas Transmission Northwest Pipeline, Kern River Pipeline, Transwestern Pipeline, El Paso Pipeline, and Mojave Pipeline. Another pipeline, the North Baja – Baja Norte Pipeline, takes gas off the El Paso Pipeline at the California/Arizona border, and delivers that gas through California into Mexico. While the Federal Energy Regulatory Commission (FERC) regulates the transportation of natural gas on the interstate pipelines, the CPUC often participates in FERC regulatory proceedings to represent the interests of California natural gas consumers. California could receive natural gas supplies from Mexico in the future, delivered from the Costa Azul LNG terminal in Baja Mexico. A major new interstate pipeline, the Ruby Pipeline, is expected to be completed in 2011. The Ruby Pipeline could deliver Rocky Mountain supplies to northern California.

Most of the natural gas transported via the interstate pipelines, as well as some of the California-produced natural gas, is delivered into the PG&E and SoCalGas intrastate natural gas transmission pipeline systems (commonly referred to as California's "backbone" natural gas pipeline system). Natural gas on the utilities' backbone pipeline systems is then delivered into the local transmission and distribution pipeline systems, or to natural gas storage fields. Some large noncore customers take natural gas directly off the high-pressure backbone pipeline systems, while core customers and other noncore customers take natural gas off the utilities' distribution pipeline systems. The PUC has regulatory jurisdiction over 100,000 miles of utility-owned natural gas pipelines, which transported 79% of the total amount of natural gas delivered to California's gas consumers in 2008.

SDG&E and Southwest Gas' southern division are wholesale customers of SoCalGas, and currently receive all of their natural gas from the SoCalGas system. SDG&E may eventually gain direct access to some out-of-state natural gas supplies via the North Baja – Baja Norte pipeline system. Some of other utility wholesale customers are the cities of Palo Alto, Long Beach, and Vernon which are not regulated by the CPUC.

Some of the natural gas delivered to California customers may be delivered directly to them without being transported over the regulated utility systems. For example, the Kern River/Mojave pipeline system can deliver natural gas directly to some large customers, "bypassing" the utilities' systems. Much of California-produced natural gas is also delivered directly to large consumers.

PG&E and SoCalGas own and operate several natural gas storage fields that are located in northern and southern California. These storage fields, and two independently owned storage utilities – Lodi Gas Storage and Wild Goose Storage – help meet peak seasonal natural gas demand and allow California natural gas customers to secure natural gas supplies more efficiently.

California's regulated utilities do not own any natural gas production facilities. All of the natural gas sold by these utilities must be purchased from suppliers and/or marketers. The price of natural gas sold by suppliers and marketers was deregulated by the FERC in the mid-1980's and is determined by "market forces". However, the PUC decides whether California's utilities have taken reasonable steps in order to minimize the cost of natural gas purchased on behalf of their core customers.

Although most of California's core customers purchase natural gas directly from the regulated utilities, core customers have the option to purchase natural gas from independent, unregulated natural gas marketers. Most of California's noncore customers, on the other hand, make natural gas supply arrangements directly with producers or purchase natural gas from marketers. Contact information for independent natural gas marketers can be found on the utilities' web sites.

Prior to the late 1980's, California's regulated utilities provided virtually all natural gas services to natural gas customers. Since then, the PUC has gradually restructured the natural gas industry in order to give customers more options while assuring regulatory protections for those customers that wish to continue receiving utility-provided services. The option to purchase natural gas from independent suppliers,

as noted above, is one of the results of this restructuring process.

Another option resulting from the natural gas industry's restructuring process occurred in 1993, when the PUC removed the utilities' storage service responsibility for noncore customers, along with the cost of this storage service from noncore customers' rates. In 1993, the PUC also adopted specific storage reservation levels for the utilities' core customers.

In a 1997 decision, the PUC adopted PG&E's "Gas Accord," which unbundled backbone transmission costs from noncore transportation rates, and gave customers and marketers the opportunity to obtain pipeline capacity rights on PG&E's backbone pipeline system. The Gas Accord also required PG&E to set aside a certain amount of pipeline capacity in order to deliver natural gas to its core customers. Subsequent PUC decisions modified and extended the initial terms of the Gas Accord. The "Gas Accord" framework is still in place today for PG&E's backbone and storage rates and services.

In a December 2006 decision, the PUC adopted a similar gas transmission framework for southern California, called the "firm access rights" system. SoCalGas and SDG&E implemented the firm access rights (FAR) system in October 2008. Under the FAR system, customers may obtain firm receipt point capacity rights for delivery on the integrated SoCalGas/SDG&E gas transmission system.

Several proposals have been made to site liquefied natural gas (LNG) terminals at various locations along the southern California and Baja Mexico coast. The PUC does not have direct regulatory jurisdiction to determine whether such terminals should be authorized. However, the PUC may participate in regulatory proceedings where such authorization is sought, in order to represent California interests. In general, the PUC believes that LNG supplies will help the state meet its requirements for natural gas in the future and should help to put downward pressure on natural gas prices, but LNG terminals should be safely sited and should not harm the environment. The PUC has adopted several measures in recent years to assure that LNG suppliers will be able to gain access to the utility systems in California. As of January 2010, the Costa Azul LNG terminal in Baja Mexico is the only completed LNG facility that could deliver supplies to California.

**Last Modified: 1/19/2010**