

Date of Hearing: July 12, 2023

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY  
Eduardo Garcia, Chair  
SB 572 (Stern) – As Amended July 3, 2023

**SENATE VOTE:** 40-0

**SUBJECT:** Natural gas: prices: report

**SUMMARY:** Requires the California Public Utilities Commission (CPUC), in consultation with the California Energy Commission (CEC), to submit a report to the Legislature, by February 1, 2024, on the status, outcomes, and recommendations of the agency’s investigation into natural gas prices during winter 2022-23.

**EXISTING LAW:**

- 1) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical corporations and gas corporations. (California Constitution Article XII)
- 2) Authorizes the CPUC to fix the rates and charges for every public utility and requires that those rates and charges be just and reasonable. (Public Utilities Code § 451)
- 3) Requires the State Energy Resources Conservation and Development Commission (also known as the CEC) to undertake various actions in furtherance of meeting the state’s clean energy and pollution reduction objectives, including actions related to energy infrastructure. (Public Resources Code § 25307)
- 4) Establishes the U.S. Federal Energy Regulatory Commission (FERC) with the responsibility to review applications for construction and operation of interstate natural gas pipelines. (Natural Gas Act § 7)

**FISCAL EFFECT:** Unknown. Pursuant to Senate Rule 28.8, this bill did not receive a hearing in the Senate Committee on Appropriations due to a determination that any state costs of the bill are not significant.

**BACKGROUND:**

*Winter Natural Gas Price Spikes.* Nearly 90% of California’s natural gas usage is imported from out of state.<sup>1</sup> This dependence on imports can make us vulnerable to events occurring elsewhere, and reliant on efficient pipeline operations to bring us needed supply. Moreover, this dependence on imports emphasizes the importance of California’s regulators to closely monitor the natural gas market.

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<sup>1</sup> CEC, “Supply and Demand of Natural Gas in California,” accessed on February 2, 2023; <https://www.energy.ca.gov/data-reports/energy-almanac/californias-natural-gas-market/supply-and-demand-natural-gas-california>

Beginning in late November 2022 and continuing through the end of January 2023, natural gas prices in California remained at higher than normal seasonal levels. As noted in a recent market analysis prepared by the California Independent System Operator (CAISO), natural gas prices tend to spike during the winter in California due to colder weather.<sup>2</sup> For instance, in February 2021 a cold snap across the United States pushed prices at the southern California gas hub<sup>3</sup> to a record \$144 per Million British Thermal Units (MMBtu). (For context, the past few years have seen gas prices hovering between \$5-\$10/MMBtu at that hub.) However, those 2021 high prices were quickly alleviated once the cold weather subsided. This past winter, gas prices rose quickly after the Thanksgiving 2022 holiday, reaching up to \$50/MMBtu, but then remained at an elevated level throughout December and January. This was true not only at the two main California hubs but also in many of the gas hubs across the west.<sup>4</sup>

According to the CPUC's fact sheets regarding utility rates, the January 2023 natural gas procurement rate was over 300% more than the procurement rate in January 2022. These costs are passed through directly to utility customers – as utilities are prohibited from marking up the price of the commodity. As such, these higher prices greatly impacted customers' utility bills this winter.

A number of factors seem to have contributed to the price increases, including the rise in global demand for natural gas due to the impacts of Russia's invasion of Ukraine, colder-than-normal temperatures, flow orders, and limited pipeline and storage capacity. However, California and much of the West experienced disparate prices compared to the rest of the country. In response, there have been multiple calls for customer relief and investigations into the causes, as well as, multitude of concerns about utility bills expressed by constituents and media.

Following calls to investigate the causes of the price spikes, the CPUC initiated an investigation<sup>5</sup> to look into the causes of the price increases and potential for recurrence, as well as the impact on electric prices and customer electric and gas utility bills. Additionally, Governor Newsom wrote to the FERC asking the federal agency to investigate whether market manipulation, anticompetitive behavior or other anomalies have contributed or are contributing to the high prices seen throughout the West this winter. The CPUC investigation remains an active and open proceeding. The opening filing by the CPUC noted their intent to resolve the proceeding "within 36 months."<sup>6</sup>

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<sup>2</sup> Pg. 9, California ISO, "Gas Conditions and CAISO Markets," February 6, 2023.

<sup>3</sup> SoCal Citygate

<sup>4</sup> Pg. 9, California ISO, "Gas Conditions and CAISO Markets," February 6, 2023.

<sup>5</sup> OII. 23-03-008 *Order Instituting Investigation (OII) on the Commission's Own Motion into Natural Gas Prices During Winter 2022-2023 and Resulting Impacts to Energy Markets*; issued March 20, 2023; <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M503/K823/503823381.PDF>

<sup>6</sup> Pg. 12, OII. 23-03-008

**COMMENTS:**

- 1) *Author's Statement.* According to the author, "The costs of the recent natural gas price spikes were borne not by Sempra's top executives, who made over \$100 million in 2021 alone, but by a lot of hard working individuals just trying to get by. While our top state energy agencies will investigate the causes of the most recent spike in natural gas prices, we need these same agencies analyzing market data, wholesale markets, and the relationships within those systems to assess, analyze, and determine whether new planning and regulations are needed to ensure California is able to meet its state energy goals, while also protecting the rate-payers from sudden price shocks that may be made worse or extended simply because of poor planning due to a lack of understanding. As a state that currently imports 90 percent of its natural gas supply, our state energy agencies simply have to have more comprehension and expertise on how these markets work in relation to meeting our broader zero carbon energy goals in a way that our rate-payer are not annually subject to energy price spikes or unnecessary costs."
- 2) *Appropriate Legislative Notice.* This bill requires the CPUC to report to the relevant policy committees of the Legislature the status, findings, and outcomes of the investigation into the winter 2022-2023 natural gas prices. This bill also requires the CPUC to include the status and any findings from FERC's investigation and to consult with the CEC to the extent necessary to analyze natural gas wholesale markets. Given the magnitude of the customer impacts felt during the winter natural gas price spikes, it seems prudent to require the CPUC to be in close communication with the Legislature, and federal and state agencies, regarding any causes behind or recommendations to prevent future natural gas price volatility. However timing the delivery of the report for February 2024, when both the CPUC and FERC investigations are still underway and unlikely to be concluded soon, may lead to a CPUC report lacking complete or useful information.
- 3) *Related Legislation.*

SB 429 (Bradford, 2023) a previous version of this bill required investor-owned natural gas utilities to provide customers with an annual credit (known as the California Climate Credit) to coincide with the highest usage month, on or as close to the February utility billing cycle, as feasible. Status: amended outside this committee's jurisdiction; *pending hearing* in the Assembly Committee on Appropriations.
- 4) *Prior Legislation.*

SB 1486 (Stern, 2022) required the CPUC to continue to consider minimizing or closing the Aliso Canyon natural gas storage facility while maintaining reliability and affordability for customers, and to annually submit a report on related findings to the Legislature. Also required the Los Angeles Department of Water and Power (LADWP) to establish a local reliability plan, taking into consideration two- to three-day extreme weather events. Status: Failed passage in the Senate.

SB 1477 (Stern) the CPUC, from July 1, 2019 through June 30, 2023, to allocate \$50 million annually from gas corporations' GHG emissions allowance revenues for the BUILD Program and the TECH Initiative established by this bill. Status: Chapter 378, Statutes of 2017.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

City of Palo Alto  
Climate Action California  
Consumer Watchdog  
Los Angeles Unified School District  
School Energy Coalition  
Sierra Club

**Other**

California Municipal Utilities Association

**Opposition**

None on file.

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