

AGA Meeting – April 12, 2010, San Diego

Focus: A range of topics and Commissioner Simon's views on challenges faced by utilities, commissions, and policy makers dealing with both economic and environmental imperatives.

Thank you Lee. Good morning Ladies and gentlemen, My name is Commissioner Timothy Alan Simon of the CPUC. Good to see you all here and welcome to California. I want to thank Bob Scaggs, President of AGA, Kyle Rodgers of AGA , the Sempra Utilities and all the AGA participants for the opportunity to speak here today.

[I am the lead natural gas Commissioner at the PUC and the co-vice-chair of the committee on natural gas at NARUC and the chairman of the LNG partnership between DOE and NARUC.]

Today I am going to talk about challenges and opportunities faced by the natural gas utilities, regulators, and policy makers. In the past, the natural gas industry has been slow to innovation. Now, however, we are at the brink of exciting new possibilities in the energy and natural gas world. There's a lot changing across the United States, and the key catalyst of change has the public's, our respective legislatures', and, yes, regulators' response to the challenge of climate change. We all know that business as usual of the past is incapable of meeting the challenges of the future. And meeting those challenges has necessary implications for utility rates.

These are just a few of the present and future drivers affecting rates:

1. **Smart Meters – that is, Natural Gas Advanced Metering Infrastructure**
2. **The push to do all cost-effective energy efficiency prior to determining resources need applies to gas**
3. **The Push for Renewables Development**

4. **The Importance and Costs of DIMP Implementation to ensure Reliability of the Gas System**

5. **The need for New Infrastructure**

6. **RD&D Opportunities**

I will be talking about these challenges and Opportunities.

1. First I want to talk about **Smart Meters and Energy Efficiency**

Last week the California PUC approved an Application of the Southern California Gas Company for Natural Gas Advanced Metering Infrastructure or (AMI) investments. This is expected to be an investment of just over \$1 Billion by Southern California Gas Company. The expected Operating benefits were found to be over \$ 3.7 billion. This is a bold step in implementing new technology.

I had the pleasure of visiting one of the potential gas AMI vendors last week, and was impressed with the web-based tools that are available to customers to manage their consumption. Microsoft and Google have developed effective platforms for viewing near real-time pricing data, and mobile applications will be available for the iPhone and other similar devices. Along with electric AMI pricing and billing information, user-friendly customer web portals and analytical tools for gas AMI will lend themselves to a better understanding of consumption patterns and home energy management options.

2. **Smart Meters link into the Push to do Cost-Effective Energy Efficiency prior to determining what resources we need is not limited to electricity – this applies to gas as well.** California is aggressive on gas Energy Efficiency (EE), for example. Bar none, EE is in fact the least cost resource when compared to renewables per ton of GHG reduced.

Smart meters will dramatically support the drive for conservation and behavioral changes. They will also work with **Smart Appliances-**

However, a very important element of AMI policy is to beef up customer education for all market segments, including ethnic, minority, hard to reach communities, and small businesses. My office ensured that last week's AMI decision included a budget for these programs in the CPUC Order.

3. Renewables Development - The rush to incorporate increasing amounts of wind and solar power into the electric grid will translate into natural gas requirements to provide reliability behind those renewables. RPS means gas— Specifically, it will be critical to have gas storage and fast ramping, fast dispatching NG power plants to support grid requirements for the integrating of intermittent wind and renewable power. Slide 4 shows that by 2009 more than 1000 MWs of Renewable capacity has been added to the Grid; most of it has been wind.

[As a note, the CA ISO is studying the grid requirements for firming and grid support of renewable generation. They are studying 20% and 33% Renewable scenarios and expect to have results by the end of the year.]

4. The need for New Infrastructure & Infrastructure Development - pipelines, storage, and at one time LNG receipt terminals - to support the future demand for gas and ensure access to new, emerging, cost-competitive sources of gas to keep commodity prices down

One of my main priorities has been to ensure that California continues to develop its natural gas infrastructure. One of the drivers here is recent legislation which mandates a long-term contract emissions standard and is benchmarked to a natural gas combined cycle technology. In 2008, the PUC voted out the Ruby Pipeline decision which consisted of the approval of two PG&E Anchor Tenant contracts for their CORE and Utility Electric Generation customers. This decision allowed El Paso a path forward to file this project at FERC to bring 1.5 BCF of Rocky Mountain gas to CA. And as an update, the FERC just granted the Ruby CPCN on April 5.

Another infrastructure priority is the continued expedited review of natural gas storage project applications. We at the PUC have been and are committed to approving natural gas storage projects to provide ratepayers with a physical hedge. California currently has over 224 BCF of storage capacity. Currently my office is assigned the SoCalGas Honor Rancho Expansion [this is an active rate setting case] and last year we approved the Gill Ranch Storage which is in PG&E's service area - others are pending.

The infrastructure around DIMP is critical—the CPUC will be reviewing DIMP program costs in rate cases. Data management will be a major component of these programs.

5. Policy Opportunities to Support Biogas Development

In February of this year I sponsored a NARUC Resolution which passed – it is the **Resolution Supporting Pipeline Quality Biomethane Development as a Renewable Gas Resource in the Clean Energy Economy**. Just to summarize, the Board of the NARUC supports pipeline quality biomethane as a renewable energy source, supports federal incentives for the development of biomethane, and urges the Senate and the House of Representatives to approve legislation as a means to provide unequivocal support for biomethane development. This is very exciting news for us, not only in regards to supporting RPS goals, but also as a means of reducing GHGs and reducing dependence off of oil for the whole country.

On that note, there is still a lot that needs to be done to get the ball rolling in regards to making biomethane feasible. I am anticipating an Application for a demonstration project to be filed at the CPUC in the future.

In Summary, from assessing the critical role of natural gas in the national renewables plan and in transforming energy usage with AMI or implementing DIMP programs The Gas Industry's plate is full and overflowing; however, it is certainly an exciting time to be in the Industry. I also commend the industry for doing a better job in messaging about the important role of natural gas for the future of this country and for a cleaner world.

Thank you