

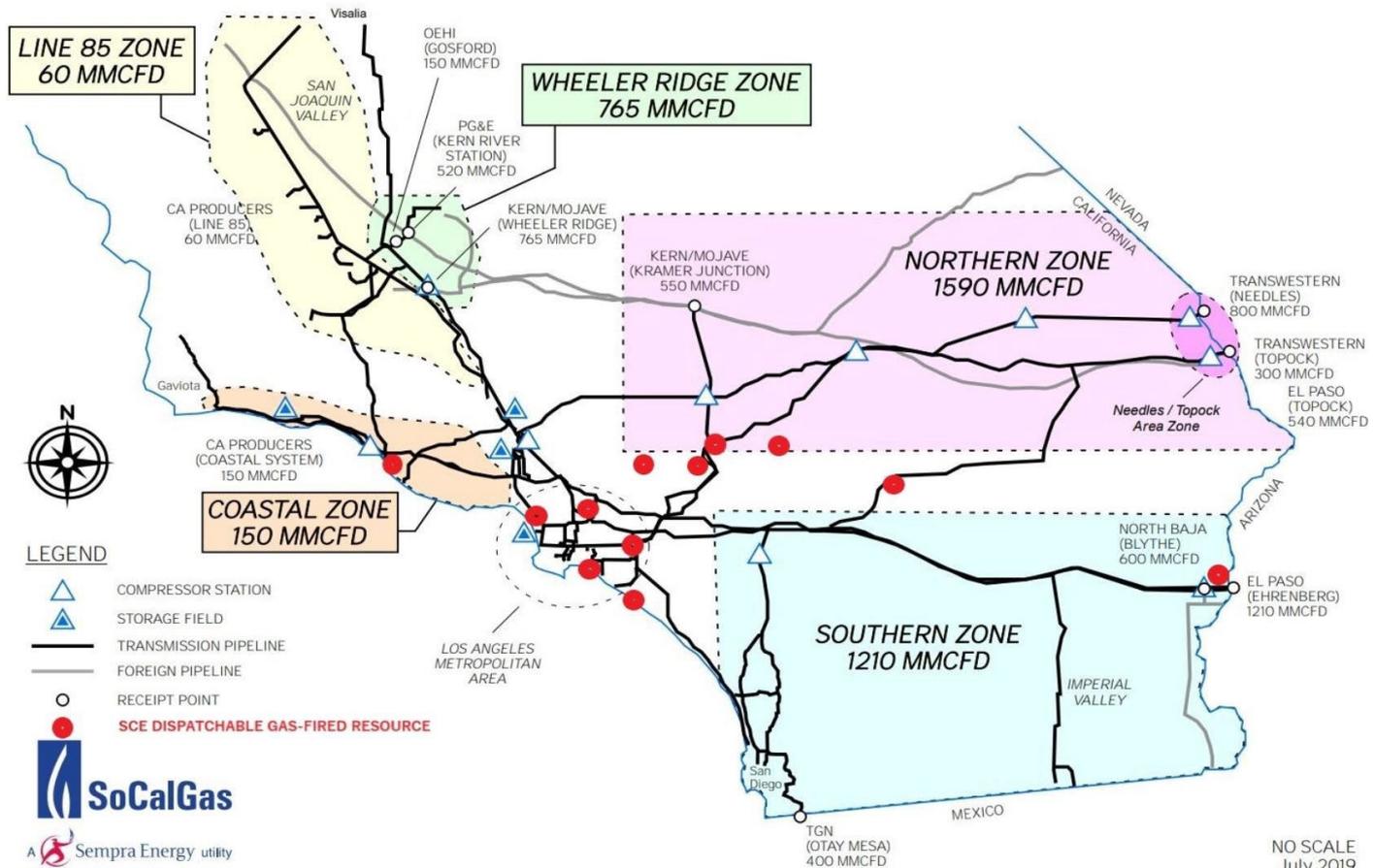
CPUC En Banc Impact on the Electric Market from High Gas Prices

William Walsh, SCE

Vice President, Energy Procurement & Management

SCE's Supply Portfolio Includes a Fleet of 12 Gas-Fired Resources Primarily Served By the SoCalGas system

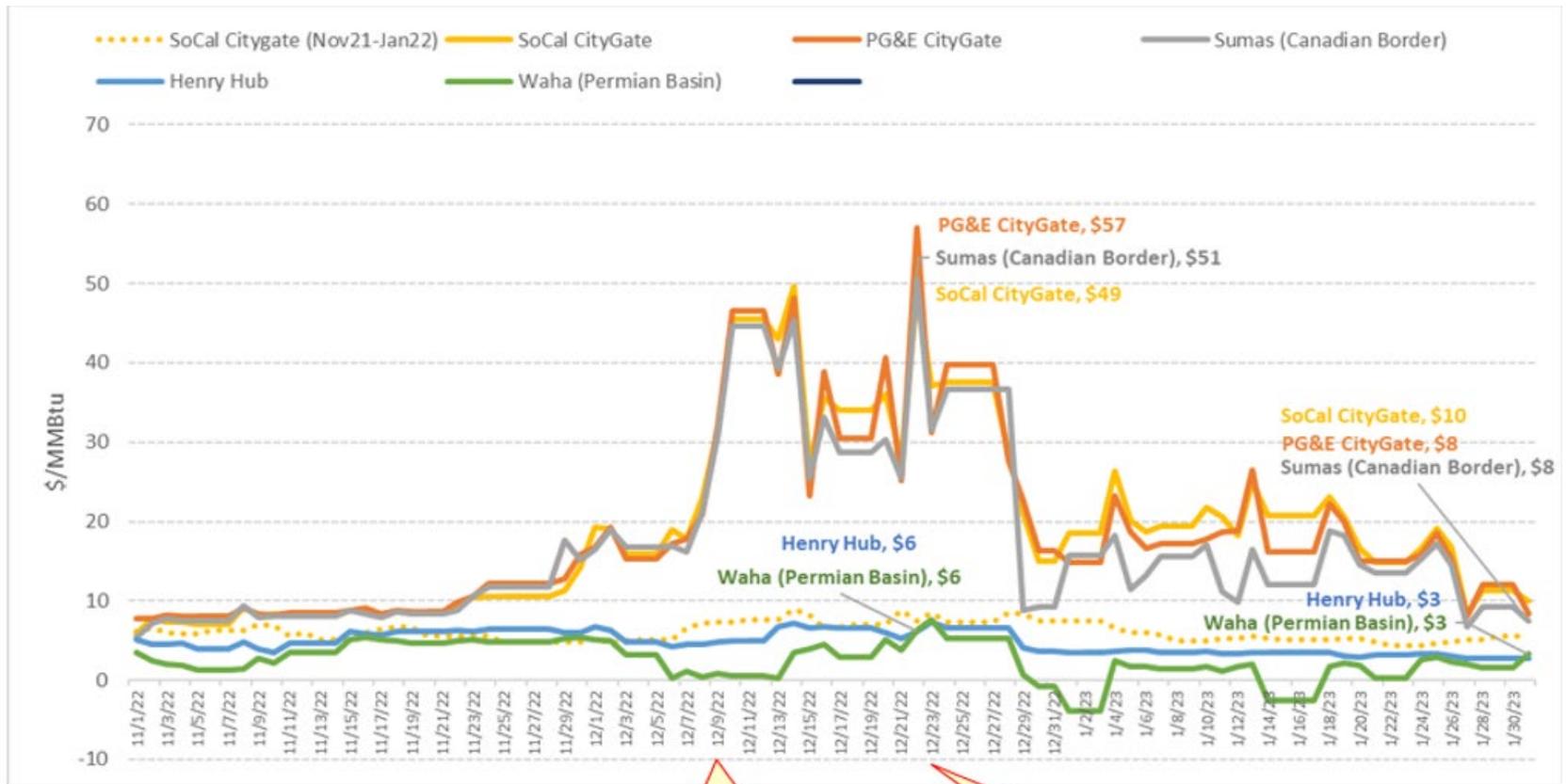
RECEIPT POINT & TRANSMISSION ZONE FIRM CAPACITIES



Since Dec 9, 2022, SoCal Citygate gas prices have averaged above \$25/MMBtu, which is 304% higher than the same time last year (Dec 9, 2021 – Jan 31, 2022).

- While fundamentals point to sustained cold Western weather and lower gas storage levels, the natural gas benchmark Henry Hub has traded significantly lower (\$3-\$7/MMBtu)
 - Storage levels in the West are 25% less than one year ago, and 32% below the 5-year average, yet market liquidity has not been an issue
- The capacity reduction of Line 2000 on the El Paso pipeline may be a contributor, however supply has remained liquid and production levels are normal across much of the US
- Both SoCalGas and El Paso pipelines have imposed frequent tighter balancing requirements at various levels, but none at the emergency level
- Although still at elevated levels, Western gas prices declined in January 2023, with SoCal Citygate gas prices averaging \$17.96/MMBtu, which is still very high (241% higher than the same time last year)

Daily Natural Gas Prices



- Henry Hub is the US nat gas benchmark trading hub.
- Western gas prices have been abnormally higher (~10x higher) as compared to Henry Hub.

Forecast shows major cold system moving through Western US. 6-10 and 10-15 day forecasts show cold but uncertainty

Winter Storm Elliot hits center of country & Texas. EPNG warns of freeze offs in Permian Basin

Electric Customer Impacts

- Based on recent gas and power premiums, SCE filed an ERRA Trigger Application (A.23-01-020) on January 31, 2023, requesting up to a \$595.6 million rate increase, effective June 1
 - This represents a 4.4% average increase across bundled customer generation rates
 - SCE is seeking flexibility to right size the increase, and reduce the rate increase if prices “self-correct”
- SCE's hedging activities (power and gas) provide some protection from price volatility, but does not fully protect against the sustained premiums
- Electric climate credits which normally would have been paid in Apr '23 will be accelerated for residential and small business customers to March
- Communication to customers is a top priority
 - Beginning January 4, SCE emailed 2.9 million residential customers and 156,000 business customers about natural gas price impacts to rates, and available customer assistance programs
 - On-going collaboration with 1,600 community-based organizations
 - Expanded affordability content on [sce.com](https://www.sce.com)

Mitigations and Potential Mitigations

- Reduce reliance on natural gas in California by advancing policies that support California's GHG emissions goals
 - Building and Transportation Electrification
 - Renewables and Storage technologies
- Hedging is an important part of any portfolio. The CPUC provides a framework to hedge for IOUs
 - SCE has a hedging program that seeks to mitigate both power and gas price spike impacts; however, hedging comes at a cost and it is not possible to hedge fundamental shifts in the market
 - Additional monitoring of CCA financial health and hedging activities could help reduce impact on customers – CPUC currently reviewing these issues in the Provider of Last Resort proceeding
 - Owners of physical generation likely already hedge gas positions, but hedging has additional cost and has limitations
- Gas storage is an important component of gas infrastructure; continued access to Aliso Canyon, as long as it continues to remain safe, helps to manage price volatility
- The Operational Flow Order (OFO) structures have been adjusted and are consistent across the IOUs
- Areas to consider:
 - Who benefits the most from higher prices? Pipeline transporters, third-party gas storage rights holders, gas utilities, marketers?
 - Misalignment between the natural gas and power markets continue to add uncertainty for market participants
 - Electric generators should have access to gas storage in Southern California (access exists in Northern California) as an additional lever to manage gas price volatility and operational constraints
 - CPUC could consider more scrutiny on actions that impact the market on entities that fall within their jurisdiction