Congress of the United States
Washington, DC 20515

March 7, 2023

Governor Gavin Newsom
1021 O Street, Suite 9000
Sacremento, California 95814

Dear Governor Newsom:

We write to you today to express concern over your outreach to the Federal Energy Regulatory Commission (FERC) concerning the recent price spikes of natural gas utilities across the State of California. In your letter, you ask for FERC to conduct oversight and investigate whether "market manipulation, anticompetitive behavior, or other anomalous activities are driving these ongoing prices…". However, the cause of these prices is already known—pipeline outages and failed policies implemented by your administration hampering the state's ability to respond.

Bad energy policies by the State of California have hindered natural gas availability, resulting in the price spike that Californians have experienced this winter. Oversight and a repeal of bad policy—not temporary one-time credits to win political points or empty letters sent to bureaucrats in Washington, DC—will be what ultimately improves the situation and prevents it from happening again. There are three distinct areas where we can improve natural gas utility across California and the West: increasing natural gas storage and transportation infrastructure, increasing opportunities for onshore production on state and private lands, and modifying price controls on input and stored assets.

Currently, California's two primary sources of energy generation are natural gas and hydroelectric power. In 2019, large hydroelectric facilities supplied over 16% of the State's total energy production.[1] In 2021, that number dropped to just 6% due to drought factors.[2] During these situations, it is vitally important to have the storage capacity needed and the gas available in surplus to subsidize the lack of energy available through hydroelectric. California simply does not have the natural gas storage capacity required to sustain a population the size of our state without seeing some price volatility as a result.

Furthermore, the capacity that we do have is not being fully utilized. Recent rulings by the California Public Utilities Commission (CPUC) have caused "the largest single-day reduction in working gas ever reported."[3] These stores are accumulated for the specific purpose of responding to reductions in supply, as we saw in December and January. When the flow of gas into California is unexpectedly reduced, we need these stores to keep prices low. Couple this

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[1] Natural Gas Intelligence, *What Caused California's Natural Gas Winter Price Spike*, Morgan Evans, February 8, 2023.
[2] Id.
[3] NewsData, *PG&E Natural Gas Storage Reclassification Allows Fewer Gas Assets, EIA Says,* Linda Dailey Paulson, July 2, 2021.

with aging pipeline infrastructure, logistics nightmares, and no hope of the state meeting a federal cost share to remedy these issues, this handcuffs our ability to respond to critical supply shortages.

This is further exacerbated by the blatant lack of in-state onshore production of natural gas. From 2016-2021, in-state gas production decreased significantly. The number of gas-producing wells has decreased from 3,997 in 2016 to 3,583 in 2021, with actual gross withdrawals decreasing from 205,025 mcf to 142,110 mcf in the same amount of time.[4] This has led to a drastic increase in out-of-state imports, from 169 mcf in 2016 to 1,385 mcf in 2021, an increase of more than 800%.[5] Your administration has set its sights on what it claims is a carbon-neutral future without thinking of the immediate implications and consequences that Californians face while state and federal agencies make it harder to be energy independent and respond to crises. An increase in onshore production and mandatory lease sales on state and federal land would allow California to be able to produce the gas needed to meet current demand figures and fill storage facilities to their actual peak capacity levels.

Lastly, the State of California must acknowledge the economic conditions that led to such price spikes, and modify how prices are hedged when product is brought into the State from external sources. 90% of the gas used in California is produced out of state and brought in from places like the basins in Texas and New Mexico, and purchase agreements from product here is hedged with other sources.[6] This cost is then averaged and levied upon the consumer. It is worth noting however, that the prices that consumers pay are not dictated by the utility companies and instead are set prices by the State of California.[7] By updating and modifying cost hedging and input averages, consumers can see lower consistent average payments on their utility bills every month, with a reduced threat of price spiking.

It is unacceptable to us that prices were allowed to reach the astronomical heights that our constituents experienced. Under policies and regulations named in this letter, the conditions that allowed for these price spikes to happen are still present and could easily occur again. Instead of trying to shift the blame to others, we urge you to take this information under advisement to review your administration's policies and develop an actionable plan to ensure that California has a future in reliably affordable natural gas for years to come.

Sincerely,

John S. Duarte
Member of Congress

Kevin McCarthy
Speaker of the House

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[4] U.S. Energy Information Administration, California Natural Gas Summary, January 1, 2023.
[5] Id.
[6] California Energy Commission, *Supply and Demand of Natural Gas in California,* Michael Nyberg.
[7] Id.

Mike Garcia
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