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On Aliso Canyon Action Plan

Comments are from Agricultural Energy Consumers Association, California Farm Bureau Federation, California Large Energy Consumers Association, California League of Food Processors, California Manufacturers and Technology Association, Direct Access Customer Coalition, Energy Users Forum, Energy Producers and Users Coalition and the Indicated Shippers

Additional submitted attachment is included below.

BEFORE THE CALIFORNIA ENERGY COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of:	
2016 Integrated Energy Policy Report (2016 IEPR)	Docket No. 16-IEPR-01

COMMENTS OF AGRICULTURAL ENERGY CONSUMERS ASSOCIATION, CALIFORNIA FARM BUREAU FEDERATION, CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION, CALIFORNIA LEAGUE OF FOOD PROCESSORS, CALIFORNIA MANUFACTURERS AND TECHNOLOGY ASSOCIATION, DIRECT ACCESS CUSTOMER COALITION, ENERGY USERS FORUM, ENERGY PRODUCERS AND USERS COALITION AND THE INDICATED SHIPPERS ON ALISO CANYON ACTION PLAN

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April 22, 2016

BEFORE THE CALIFORNIA ENERGY COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of: 2016 Integrated Energy Policy Report (2016 IEPR)	Docket No. 16-IEPR-01

COMMENTS OF AGRICULTURAL ENERGY CONSUMERS ASSOCIATION, CALIFORNIA FARM BUREAU FEDERATION, CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION, CALIFORNIA LEAGUE OF FOOD PROCESSORS, CALIFORNIA MANUFACTURERS AND TECHNOLOGY ASSOCIATION, DIRECT ACCESS CUSTOMER COALITION, ENERGY USERS FORUM, ENERGY PRODUCERS AND USERS COALITION AND THE INDICATED SHIPPERS ON ALISO CANYON ACTION PLAN

I. INTRODUCTION

The release by Southern California Gas Company (SoCalGas) of roughly 100,000 tons of methane from its Aliso Canyon storage field raised public awareness of the risk to the Porter Ranch community and the environment of SoCalGas's failure to safely operate its largest storage field. While the public and environment must be protected from further methane releases, continued safe and prudent reliance on Aliso Canyon will be the most effective measure to mitigate the risk of an energy reliability crisis – a crisis that could have a far broader impact in Southern California than the electricity crisis of 2000-01. As the *Aliso Canyon Risk Assessment Technical Report* unequivocally demonstrates, removal of Aliso Canyon from service would place all of Southern California at risk for severe disruptions of electricity and natural gas supplies.

The responsible and effective solution requires that all stakeholders – the DOGGR, the CPUC, the CEC, the CAISO, electric and gas utilities and utility customers and their suppliers – do their part to mitigate the risks of natural gas and electric service disruption while **safely** and **incrementally** returning Aliso Canyon to full operation.

Customers of the natural gas and electric utilities and their non-utility suppliers identified below[1] (Utility Customers & Suppliers or UC&S) are critically concerned about the reliability of energy supplies this summer. The *Technical Report* forecasts as many as 16 days of gas curtailment and up to 14 days of electricity outages this summer if no gas can be withdrawn from Aliso Canyon.[2] Utility Customers & Suppliers fear that the *Technical Report* may actually understate the potential negative consequences by ignoring the inability to ensure balancing of residential and small commercial gas supply and consumption. Service interruptions, whether gas or electric, will have significant economic consequences to the region and, in some cases, further risk public safety.

The UC&S support the prompt return of Aliso Canyon to service to the extent it can be done safely. Regulators should continue to explore all alternatives, including partial or incremental return to service, and commit all

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[1] The supporting utility customers and suppliers represent a broad range of noncore natural gas and industrial electricity end-use customers and the suppliers who deliver the energy into California to meet their needs: Agricultural Energy Consumers Association, California Farm Bureau Federation, California Large Energy Consumers Association, California League of Food Processors, California Manufacturers and Technology Association, Direct Access Customer Coalition, Energy Users Forum, Energy Users Producers and Users Coalition and the Indicated Shippers.

[2] *Aliso Canyon Risk Assessment Technical Report* (*Technical Report*) at 4.

necessary resources to achieve this goal. Until this can be achieved, UC&S support the *Action Plan's* call to implement interim mitigation measures. Workable mitigation measures on the SoCalGas and SDG&E natural gas systems include:

- Temporary modification of existing SoCalGas Operational Flow Order (OFO) procedures to enhance their use this summer;
- Use of available High and Low OFO and Emergency Flow Order (EFO) procedures to ensure a closer match of gas deliveries and consumption than is necessary under normal operating conditions;
- Relief from OFO and EFO penalties for noncore gas customers responding to electric demand response instructions; and
- Adoption of the proposed settlement in Application 15-06-020 to modify existing end-use curtailment protocols in a way that prioritizes residential and small commercial customers and secures electric reliability, while minimizing disruption of the businesses that underpin California's economy;

As recommended by the *Action Plan*, regulators should also determine whether any gas maintenance tasks can be safely shifted to periods in which they would cause the least supply disruption, expand conservation efforts and accelerate energy efficiency projects. Finally, customers should be provided with gas-related gas demand response program options that compensate them for their flexibility, rather than being subjected to balancing and curtailment requirements that penalize them. The electricity sector "carrot" approach would be superior to the natural gas "stick" approach.

UC&S also support the CAISO's effort to increase coordination with the gas utilities to mitigate the risk of gas and electric service disruption. In general, the measures under consideration in the CAISO's *Aliso Canyon Gas-Electric*

Coordination Straw Proposal [3] aim to ensure a sufficient and stable electricity supply at reasonable prices. Care should be taken in implementing these measures to avoid unintended consequences for the utilities' non-electric generator customers.

UC&S encourage regulators and other stakeholders to continue exploring solutions. In addition to solutions mentioned in the *Technical Report*, regulators should review the feasibility of the following measures:

- Reduce any constraints upon in-state gas producers that are supplying the SoCalGas system (e.g., imbalance penalties) to incentivize their maximum production.
- Increased control over the natural gas supply-demand imbalances within the residential and small commercial customer classes;
- Use of the Costa Azul liquefied natural gas (LNG) terminal in Baja, Mexico, as a potential supply source to ensure supply adequacy on the Southern System and to support retention of supplies in the LA Basin to maintain system pressure.
- Addition of compression in or around the LA Basin to mitigate, in part, the loss of system pressure provided by Aliso Canyon.
- Expanding CAISO Flex Alerts to include measures for reducing natural gas usage when needed to preserve limited gas supplies by setting thermostats lower in winter periods.

Even if these options are not found to be feasible for summer implementation, they could be equally valuable in the event of continuing winter constraints or other future events.

UC&S generally support the aims of the *Action Plan* and look forward to further development and implementation of beneficial measures.

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[3] CAISO *Aliso Canyon Gas-Electric Coordination Straw Proposal* (April 15, 2016).

II. PRUDENT USE OF ALISO CANYON

The *Action Plan* calls for prudent and safe utilization of Aliso Canyon. UC&S support this conclusion. Withdrawal of up to 10 Bcf of existing gas inventory should be permitted this summer. In addition, regulators should allow SoCalGas to return injection wells to service incrementally, or in batches, once the well(s) have been certified by the Department of Oil, Gas & Geothermal Resources (DOGGR). If SoCalGas is unable to inject gas into storage for the core customer class, it may have insufficient gas to meet their needs this coming winter.

III. GAS SYSTEM BALANCING

The *Action Plan* emphasizes the critical importance of customers balancing their gas deliveries with their actual consumption, proposing a measure to "Tighten Balancing Rules." Stakeholders should not reinvent the wheel when existing tools are available to align noncore customer deliveries with their consumption on a daily basis. All stakeholders must recognize, however, that tighter balancing places noncore customers at a material risk of substantial penalties under OFO or curtailment conditions. The impact on noncore customers could be reduced if the core class were required to meet the same standards imposed on noncore customers.

A. SoCalGas and SDG&E Have Existing Tools to Align Noncore Customer Deliveries with Their Consumption on a Daily Basis.

The Action Plan proposes "Tariff Changes" to the SoCalGas/SDG&E tariffs aimed to mitigate gas and electric reliability this summer. The proposed

tariff rules, which target the supply-demand balance on the SoCalGas system, are largely in place and need only be exercised.

The Action Plan proposes to "Implement Tighter Balancing Rules." Existing tariff rules already provide the tools needed to bring the system into a tighter balance through the use of Low and High OFOs and EFOs. All that is truly required is to implement the *Technical Report's* second mitigation measure: "Modify Operational Flow Order Rule." The necessary modification is narrow, allowing SoCalGas to call a High OFO with a 5% tolerance, in addition to its current authority to call a High OFO with a 10% balance. The Action Plan also calls for "More Specific Gas Allocation Among Electric Generators in Advance of Curtailment," which has been the focus of recent settlement discussions before the CPUC. In short, concentrated efforts to implement any necessary SoCalGas and SDG&E tariff changes are already underway in CPUC Application 15-06-020 and are supported by the CAISO stakeholder process.

B. Achieving a Tighter System Balance, Coupled with the Risk of Noncore Curtailment, Will Expose Industrial and Electric Generation Customers to Significant Penalties.

While OFOs, EFOs and gas curtailment are available to mitigate summer gas and electric reliability threats, the implications for the state's businesses and electric generators of increasing the use of these tools should not go unnoticed. Tighter system balance will be achieved largely through the effort of these customer classes, supporting flexibility and service reliability for Southern California's residential customers. These balancing efforts could come at a high cost to operators who are unable, despite their best efforts, to maintain their

supply-demand balance. Even those customers who maintain the mandated balances will experience higher costs in achieving that balance.

Any presumption that noncore industrial and electric generation customers can balance their daily supply and demand more easily than SoCalGas can for its core customers is misplaced. A customer or its supplier schedules gas deliveries on the SoCalGas system based on a forecast. SoCalGas does the same for its core customers. The customer's actual usage can vary for a variety of reasons, including unanticipated ambient conditions, a plant upset or other changes in the production process. A customer's gas usage may also vary from its forecast if it interrupts production to respond to a call for demand response, which may be required within 15 minutes or half an hour. Industrial customers reduce their load in response to a call for demand response by shutting down equipment or production lines. If production requires natural gas use, depending upon the time of day and the duration of the load reduction, the customer or supplier may or may not be able to adjust the customer's scheduled deliveries to avoid a material imbalance; an event that occurs later in the day may put the customer in an imbalance position, regardless of its best efforts.

The *Action Plan* also erroneously assumes that these customers "also can purchase gas storage service" [4] to manage imbalances. With SoCalGas's storage injection, withdrawal and inventory capacity cut roughly in half, there will not be storage available as a tool to balance load.

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[4] *Action Plan* at 12.

If a customer is not able to balance within a mandated daily tolerance, the cost can be significant. Penalties for a Low OFO imbalance under SoCalGas's Rule 30 range, depending on SoCalGas's exercise of discretion, from $0.25/Dth to $50/Dth plus 150% of the applicable gas price index.[5] At today's gas prices, the top of the penalty scale could be more than **25 times** the actual cost of gas. Critically, when SoCalGas exercises its Emergency Flow Order procedure, a customer faces a penalty of $50/Dth plus 150% of the gas price index, again more than 25 times the cost of gas, for each and every Dth of variance from its scheduled volumes.[6] A High OFO penalty, while more reasonable, also creates a financial risk and burden at 150% of the applicable gas price index.[7]

If the SoCalGas system reaches a condition where curtailment is required to protect service to residential gas customers and electricity customers, noncore industrial and electric generation customers will face significant curtailment costs. Curtailment violations will be determined on an *hourly* basis, substantially increasing the challenge of staying in balance. Further exacerbating the customer's predicament, penalties for curtailment violations will be $50/Dth plus 150% of the applicable gas price index, again more than 25 times the customer's cost of gas at today's prices.

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5 SoCalGas Rule 30 §G.1.
6 *Id.* §G.2.b.
7 *Id.* §F.4.

C. Tighter Balancing by Noncore Industrial and Electric Generation Customers Cannot Fully Mitigate Curtailment Risk.

The *Technical Report* focuses a good deal of attention on the importance of tighter balancing tolerances, with some scenarios assuming 5% daily balancing. The report recognizes, however, that tighter balancing is not a complete solution:

> *The Technical Assessment Group recognizes that daily balancing is difficult and may not be fully effective based on the dynamic nature of the electric system. Even if daily balancing is implemented as the action plan mitigation measures suggest, it will never eliminate all mismatches between scheduled gas and actual use. When some mismatches still inevitably occur, electric outages as a result of insufficient gas supply remain a risk.*[8]

Without withdrawals from Aliso Canyon, daily balancing cannot mitigate the risk arising from pipeline or storage outage or sudden swings in demand in the LA Basin, as the Technical Report acknowledges.

Another factor not acknowledged by the Technical Report diminishes the ability of daily balancing to mitigate supply disruption risk. The core class is not currently required to balance its deliveries and consumption within *any* tolerance under OFO conditions, nor would they be required to do so under daily balancing. Noncore customers under the tighter balancing conditions of OFOs are required to match their deliveries with their consumption on a daily basis within tolerances as narrow as 5%. Core customers, however, are required only to match their deliveries to a *forecast* received by Gas Acquisition at 6:00 a.m. of

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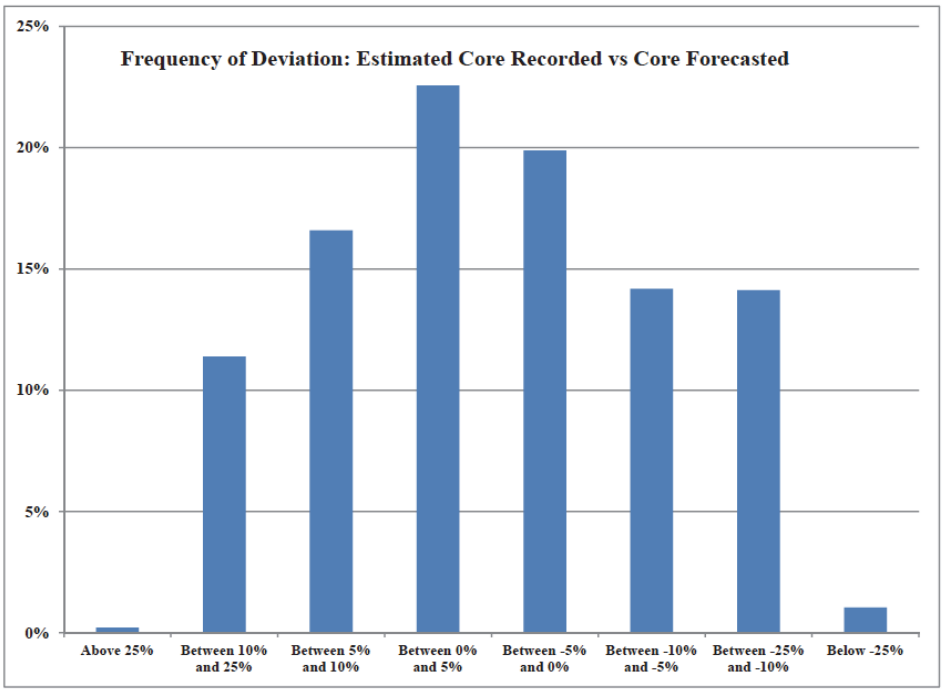
[8] *Technical Report* at 31. UC&S note that the CAISO's *Aliso Canyon Gas-Electric Coordination Straw Proposal* erroneously concludes that "the gas balancing rules should mitigate risk to reliability on the gas system." Straw Proposal at 4.

the flow day. The core is thus at little to no risk of being out of "balance", as balance is measured by the utility.

If the forecast to which the core balances does not reflect actual consumption, the utility will deem the core class in "balance" even when under- or over-deliveries are as high as 25%. The following analysis was prepared by Catherine Yap, on behalf of Barkovich & Yap, Inc., comparing the core forecast to core actual deliveries from 2011-2015.



This analysis demonstrates that the core forecast deviates from actual core deliveries by more than 5% more than half the time. More than 25% of the time, the forecast varies from actual consumption by more than 10%. While the forecast variance occurs during all seasons, the variance presents the greatest threat to system reliability in winter months, when core load represents 60% of

the total system load. Nothing in any daily balancing or OFO proposal aims to solve this material problem.

The core impact on system balance can no longer be ignored. SoCalGas claims that it has no tools to manage core deliveries to actual consumption. Indeed, it contends that, even after it has spent more than $1 billion to complete its Advanced Metering Initiative, the "software" will not allow real time balancing. Because all methods to meet system needs must be pursued, it is imperative, particularly before the winter months, to hold SoCalGas and SDG&E to the same balancing standard for the core class as they apply to noncore customers.

IV. DEMAND RESPONSE

A. Customers Reducing Electricity Supply in Response to a Demand Response Instruction Should Be Relieved from any Resulting Balancing Penalties.

Regular "daily balancing," whether through OFOs, EFOs or any other measure, will present conditions not previously faced by customers. As noted in Section II.B., a customer responding to an electric sector demand response (DR) instruction could, by doing so, move its gas supply outside a daily OFO or EFO tolerance. These customers would then be forced to choose whether or not to respond to the instruction, weighing the penalty for noncompliance with the DR instruction[9] and the penalty for noncompliance with OFO or EFO events. Placing electricity customers in this position seems contrary to the goal of encouraging demand response, which can mitigate electric supply disruptions.

[9] Some demand response programs have high penalties for failure to perform, so the customer is in jeopardy on both the gas and the electric side. The penalty for the Base Interruptible Program for SCE is roughly $13/kWh.

It is possible at times that a DR instruction to a customer could align with a gas curtailment; in that event, the two signals may be aligned. That scenario, however, is unlikely. First, tighter balancing conceivably could be a near-daily event, while gas curtailments will not likely occur with the same frequency. Second, it is possible that electric DR could be called irrespective of gas balances depending on electric system conditions. Third, it is likely that most gas curtailment will be called in the LA Basin and, more specifically in the LA Basin; DR dispatch may be system wide.

Demand response will play an ever more critical role in avoiding electricity outages this summer. To encourage response to instructions by customers participating in demand response programs, regulators should ensure that the customers that respond do not, by doing so, incur penalties for gas balancing.

B. Demand Response in the Natural Gas Sector

Demand response is an ever-growing tool in the electricity sector to control the supply demand balance in the electricity market. While certain DR programs have been in place for decades, these programs and opportunities are increasing as DR is integrated into the CAISO's markets.

Regulators must ask why, if demand response is valuable in the electricity sector, demand response could not be equally valuable in the natural gas sector. Today, customer behavior in the natural gas sector is directed with the "stick" of non-compliance penalties. Approaching customer behavior, instead, with the "carrot" of demand response value would ensure that customers who are most

capable of responding to gas supply issues are compensated for the value, while customers who place a higher value on stable operations continue to operate.

V. OTHER MITIGATION MEASURES

The *Action Plan* presents a list of proposed mitigation measures; it does not, however, inventory the range of potential measures analyzed in reaching its final recommendations. In addition to the proposal to bring the core class into balance on the gas system, UC&S propose consideration of other potential measures: incorporate a natural gas Flex Alert into the state's tools for management usage, standby LNG cargo at Costa Azul and installation of additional compression near or around the LA Basin

A. Flex Alerts Should Be Considered as a Tool to Allow Consumers to Support the SoCalGas System When the System is Underpressurized.

The Technical Report focuses largely on the risks of under-pressurization of the SoCalGas system when system demand materially exceeds delivered gas supplies and storage withdrawal capacity. The report identifies the safe margin of variation:

> …the maximum difference between the expected supply and actual demand that can be tolerated without Aliso Canyon supply is estimated at 150 MMcfd (this can thus be viewed as the maximum supply shortfall that could be tolerated).[10]

As noted above in Section III.B., beyond simply penalizing customers when their balance goes beyond permissible tolerances, development of natural gas demand response programs should be explored that could reduce demand on

[10] *Technical Report* at 26.

the system. In addition, natural gas users should be integrated into the Flex Alert system seeking voluntary reductions when possible.

The Flex Alert, today, is an urgent call to consumers issued by the CAISO to urge Californians to immediately conserve electricity and to shift demand to off-peak hours. The program also provides education to inform customers about how and when to conserve electricity. The same concept could be used for natural gas consumers, allowing residents and businesses to reduce or shift natural gas demand to address system reliability.

B. Regulators Should Explore Whether the Costa Azul LNG Facility Could Provide Supply Assurance and Support Pressure in the LA Basin.

The *Technical Report* demonstrates that pressure in the LA Basin is related to pressure on the Southern System. It explains:

> *The Northern System is a primary supply source to the Los Angeles Basin, but also provides support to the Southern System serving San Bernardino, Riverside, Imperial, and San Diego counties. The Southern System currently lacks supply diversity. For the most part, it is dependent upon supply from a single interstate pipeline, with only a limited amount of support provided from Northern System. When supplies delivered on the Southern System are insufficient to support its level of demand, SoCalGas can divert some of the Northern System supplies from the Los Angeles Basin to the Southern System. Normally, SoCalGas would then supplement this loss of supply to the Los Angeles Basin with supply withdrawn from the Aliso Canyon storage field. However, in this scenario that is not an option, and any Northern System gas supply delivered to the Southern System comes at the expense of the Los Angeles Basin.*[11]

In other words, SoCalGas has the challenging task of balancing the risk of shortage on the Southern System with the risk of shortage in the LA Basin.

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[11] *Technical Report* at 23 and Figure 7.

It thus seems that ensuring adequate supply into the Southern System could both prevent supply shortages on that system and leave more gas in the LA Basin to support system pressure and supply. Today, SoCalGas relies primarily on deliveries from the El Paso Natural Gas Company Ehrenberg receipt point to meet Southern System demand, supplemented by the Northern System. One other option exists to support the Southern System: deliveries at Otay Mesa from the Costa Azul LNG facility, owned in part by Sempra Energy.[12] The capacity at the Otay Mesa receipt point is approximately 400 MMcfd; adding as much as 400 MMcfd to the Southern System could ensure adequacy of supply to that system while maintaining adequate supply and pressure in the LA Basin.

Supply could be provided to the Southern System as needed to support system pressure by standby cargo at Costa Azul, a practice used in other regions. Massachusetts provides a clear example. In the winter of 2014- 2015, an LNG facility owned by Distrigas of Massachusetts LLC was credited with helping to avert natural gas supply shortages.[13] While this solution may or may not be economic in the long run, it may provide needed system pressure pending Aliso Canyon's return to service.

No doubt questions would arise regarding any transaction between SoCalGas and the LNG facility in light of their affiliate relationship. The existing affiliate rules do not, however, prevent such a transaction. Moreover, to the extent the rules

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[12] While much of the delivery could result from displacement, it merits noting that the facility is only slightly more than 50 miles from San Diego, requiring only a couple of hours to reach the market.

[13] *See Pipeline Opponents Say LNG Is Underutilized,* The Boston Globe, March 23, 2015. https://www.bostonglobe.com/business/2015/03/22/with-increase-lng-supplies-does-region-really-need-new-pipelines/mrRbwgaiKwYuAJoGXDiPMN/story.html

created hurdles that could not be cleared quickly enough to provide a solution, the CPUC has broad jurisdiction to accommodate such a transaction.

If the CPUC, CEC and SoCalGas have not yet vetted the possibility of using Costa Azul as a short-term supply alternative, such an analysis should be undertaken immediately.

C. Regulators Should Investigate the Potential to Install Additional Compression to Support Gas Pressure in the LA Basin.

The *Technical Report* recognizes the high risk of pressure drops in the LA Basin that could arise without the operation of Aliso Canyon.[14] The report does not suggest, however, that the Technical Assessment Group considered whether installation of additional compression in the LA Basin was a feasible solution. Regulators should analyze the potential to install additional compression to provide system support for this summer and future storage disruptions.

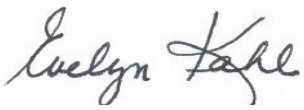
VI. CONCLUSION

California risks another energy reliability crisis this summer, perhaps greater than the 2000-01 electricity crisis. The most effective means of mitigating this risk would be to dedicate California's resources to safely return Aliso Canyon to service. While a full return to service may not be possible this summer, solutions involving prudent use of Aliso Canyon can be incremental. Regulators should permit SoCalGas to continue withdrawing the limited gas inventory from Aliso Canyon as needed to prevent curtailments and outages. In addition,

[14] *Technical Report* at 18.

regulators should develop a plan to safely allow the incremental return of certified injection wells to service, permitting SoCalGas to increase storage inventory to support summer and winter reliability. The additional mitigation measures contemplated by the *Action Plan*, along with measures discussed in these comments, should also be developed to expand the tools available to prevent an energy reliability crisis in Southern California.

Respectfully submitted,



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