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Re: Joint Comments of the Alliance for Retail Energy Markets and Shell Energy North America (US), L.P. on the Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin

The Alliance for Retail Energy Markets ("AReM")[1] and Shell Energy North America (US), L.P. (hereinafter, "Joint Parties") appreciate the efforts of the California Public Utilities Commission ("CPUC"), California Energy Commission ("CEC"), California Independent System Operator ("CAISO"), and the Los Angeles Department of Water and Power ("LADWP") to prepare the *Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin* ("Reliability Plan") that was discussed at the joint agency workshop on April 8, 2016. The Joint Parties submit comments herein on matters raised in the Reliability Plan.

The Reliability Plan focuses on near term gas-electric coordination issues that will be important for managing the use of natural gas for electricity generation during peak electric demand periods this summer. The Reliability Plan notes that further technical analysis must be undertaken to more fully address measures that will be necessary for the 2016–2017 winter season.

[1] AReM is a California mutual benefit corporation formed by electric service providers that are active in California's direct access market. The positions taken in this filing represent the views of AReM but not necessarily those of individual members or affiliates of its members with respect to the issues addressed herein.

During the winter season, the "core" gas market (residential and small commercial customer load) replaces gas-fired electric generation as the predominant (and most volatile) portion of southern California gas demand. As is discussed in greater detail below, the CPUC must develop measures that can be implemented prior to this coming winter to enable Southern California Gas Company ("SoCalGas") to forecast core load more accurately, and more closely balance core gas deliveries against core customer usage on days when an operational flow order ("OFO") is necessary. Addressing core balancing is key to mitigating the potential for curtailment of noncore load in the upcoming winter season, in the event Aliso Canyon is not returned to some level of operability.

I.

INTRODUCTION

The unavailability of Aliso Canyon creates the potential for gas supply interruptions during peak demand periods. This is exactly the type of event for which SoCalGas has been given the operational tools (OFO/EFO protocol) to encourage customers to deliver sufficient gas supplies to the SoCalGas system to match customer demand when circumstances require. The OFO/EFO protocol was approved by the CPUC and implemented by SoCalGas to address circumstances of "system stress."

The "Risk Assessment" undertaken as a part of the Reliability Plan raises the concern that the imbalance between supply and demand during peak summer periods will result in the curtailment of gas supply. This Risk Assessment failed to account for the fact that on days when forecasted demand exceeds scheduled gas deliveries by more than the amount of available storage withdrawal, SoCalGas may call a "low OFO." The low OFO/EFO protocol was approved in June 2015 (D.15-06-004), but was not implemented until December 2015. As a result, the low OFO/EFO protocol was not accounted for in the Risk Assessment. Having the low OFO/EFO protocol in place, in combination with the existing high OFO/EFO protocol, allows SoCalGas to align gas supply deliveries with forecasted customer usage when necessary, without adoption of "universal" daily balancing. The Reliability Plan should be updated to acknowledge that the OFO/EFO protocol reduces the potential for gas (and electric) curtailment.

The Reliability Plan also fails to address the severe economic consequences for noncore customers if a daily balancing requirement were to be imposed. The Reliability Plan needs to more explicitly recognize and address the potential costs to manufacturers, food processors and other noncore customers if a daily balancing approach were to be adopted.

The joint agencies have a unique opportunity to evaluate (and hopefully avoid) unintended consequences to gas and electric customers, and to the economy, that may arise with the limitations in the gas delivery network due to the unavailability of the Aliso Canyon gas storage facility. The joint agencies must consider, in addition to impacts on the statewide electric system, potential impacts to neighboring gas and other electric balancing authorities; impacts to customers that may be requested to curtail electric use; and excessive additional costs imposed on electric and/or gas customers; and the potential impact on California businesses.

The joint agencies should monitor gas and electric system operations on an ongoing basis, including the effects of potential unintended consequences, and seek ways to lessen these impacts. It will be critical for California businesses to economically manage through this interim period when Aliso Canyon is out of service, and to mitigate excess costs wherever possible. Mitigating costs to businesses will maintain employment, retain businesses in the State, and maintain tax base and tax revenues.

Finally, the Reliability Plan includes proposed mitigation measures that reveal jurisdictional boundaries between and among the sponsoring agencies. The Joint Parties applaud the sponsoring agencies' efforts to coordinate their activities and proposed mitigation measures. In particular, the Joint Parties urge close cooperation among the CPUC, LADWP, and the CAISO to coordinate the timing of gas scheduling and the dispatch of gas-fired electric generation during the upcoming summer months.

II.

COMMENTS ON THE RELIABILITY PLAN

As noted at the April 8 workshop, the Reliability Plan is a "living document." The Reliability Plan should evolve as operational issues at Aliso Canyon are identified, evaluated and addressed, in order to ensure that there are minimal or no "unintended consequences" from regulatory actions taken pursuant to the Reliability Plan. The following matters must be considered:

1. SoCalGas Operational Protocols and Tariffs: The Reliability Plan emphasizes the need for "tighter" gas balancing requirements on the SoCalGas system. The Reliability Plan fails to acknowledge the operation of SoCalGas' current OFO protocol, however, which allows SoCalGas to institute daily balancing when necessary to align gas deliveries with actual customer usage. No evidence has been produced to show that the current OFO/EFO protocol is not adequate to address system-wide balancing issues. The OFO/EFO protocol makes "tighter" balancing requirements on SoCalGas' system unnecessary.

Moreover, the Reliability Plan must be updated to reflect agreed upon interim OFO modifications to be considered by the CPUC as a result of a settlement to be submitted on or about April 29, 2016 in an ongoing CPUC docket (A.15-06-020) by SoCalGas and stakeholders in the southern California gas market. The agreed upon OFO modifications are intended to augment existing OFO rules and enhance reliability on the SoCalGas/SDG&E system during the coming summer months. The settlement also provides a process for consideration of additional and/or alternative operational changes that will enable SoCalGas to address system reliability issues during the winter months. The adopted Reliability Plan should support the efforts undertaken by stakeholders, as guided by the CPUC, to address gas system operational issues in this ongoing proceeding.

2. Core Versus Noncore Load Balancing Requirements: As discussed above, gas system reliability during the winter months depends on SoCalGas' ability to balance gas deliveries for the core against core customer usage. Whereas noncore customers' gas deliveries can be brought into balance through the use of OFOs, it is more difficult to manage core balancing. The reason is that the OFO/EFO protocol operates differently for noncore customers and for core customers. When the OFO/EFO protocols are invoked, noncore customers must balance daily gas deliveries against actual daily usage. By contrast, SoCalGas' Gas Acquisition Department (on behalf of the utilities' bundled core sales customers) must balance core gas deliveries against a forecast of daily core usage ("Daily Contract Quantity") that is provided by SoCalGas in advance of the gas flow day. This core load forecast is fixed through all intra-day nomination cycles.

SoCalGas' Gas Acquisition Department and other core transport agents ("CTA") that serve core load are required to balance gas deliveries to a forecasted core load that is provided at 5:00 a.m. on the gas flow day. This practice largely insulates SoCalGas' Gas Acquisition Department (and core customers) from imbalance penalties. If conditions on the gas flow day suggest that the day-ahead forecast was under- or over-stated, the Gas Acquisition Department has no incentive (or obligation) to balance to a more current and accurate forecast based on actual conditions, much less balance to the core's load actual usage.

Incentives for the Gas Acquisition Department to balance supplies and deliveries for bundled core customers, like noncore customer balancing incentives, should encourage shippers to match deliveries and consumption as closely as possible on days when tight balancing is required. SoCalGas should be required to align the rules for balancing core customer load with the rules for balancing noncore customer load. As SoCalGas continues to implement AMI for all of its customers, including core customers, and as daily metering (actual usage) data is available to the utilities, daily metering data should be relied on by SoCalGas' Gas Acquisition Department for balancing bundled core customers' loads.

In addition, SoCalGas should be required to accelerate the communication of daily usage data to noncore customers. Real time usage data should be made available to noncore customers to improve their ability to accurately balance gas deliveries against their actual usage, as they are required to do.

The loss of operability of the Aliso Canyon storage field has accentuated the differential balancing rules for core customers and noncore customers. These rules must be addressed to ensure greater system reliability and to prevent noncore customers from bearing unnecessary burdens and unreasonable daily imbalance charges. Failure to address the inequitable core balancing rules could create a situation where large numbers of noncore customers, increasingly subject to daily imbalance charges, are encouraged to switch to core service. Significant noncore-to-core switching could have far reaching economic, competitive and reliability impacts.

For example, a noncore customer's switch to a core rate schedule would significantly increase the noncore customer's transportation rate. Moreover, current rules require that a noncore customer switching to core service must remain on core service for at least five years. A switch to core service as a result of the unavailability of Aliso Canyon, and the consequent imposition of daily balancing, could result in increased costs for noncore customers for many years. A five-year minimum stay requirement should not apply to a noncore customer that is forced to switch to core service due to the onerous burden associated with increasingly frequent daily imbalance penalties.

Significant noncore-to-core switching could also lead to service reliability concerns on the SoCalGas/SDG&E system. The utilities' systems were built to ensure service reliability to all core customers, with less reliability for noncore customers. A massive migration of noncore customers to core service as a result of a daily balancing requirement could diminish the reliability of service for all core customers.

3. Permit Imbalance Trading After the End of an OFO/EFO Day: Under current rules (SoCalGas Schedule G-IMB), customers may not trade daily imbalances in excess of daily imbalance tolerances after an OFO or EFO event. The unavailability of Aliso Canyon should not provide an opportunity for SoCalGas to impose added charges on its customers, however. In order to mitigate the impact of OFO/EFO noncompliance charges, the CPUC should direct SoCalGas/SDG&E to facilitate the trading of daily imbalances, including trading through the day after the gas flow day. Allowing the trading of imbalances after the end of an OFO/EFO day does not affect the overall level of a system imbalance on an OFO/EFO day, but this step will reduce the noncompliance charges incurred by noncore customers.

System upgrades necessary to allow daily imbalance trading (if any) should not be significant because SoCalGas accommodates monthly imbalance trading today. Additionally, if balancing the system, rather than collecting noncompliance charges, is truly the motivation, SoCalGas should support the trading of daily imbalances. Facilitating the trading of prior day imbalances could eliminate a large portion of noncore customers' daily imbalance noncompliance charges. Other pipelines currently offer prior day imbalance trading. SoCalGas should offer this service as well.

4. Increase Transparency of Gas Supply and Forecast Demand to Enable Customers to Anticipate OFOs: SoCalGas posts on Envoy various pieces of operational information that are intended to provide market participants an indication, as of a point in time, whether an OFO (low or high) is anticipated in the near future. The posted information includes forecasted send-out, latest scheduled gas quantities, the forecasted total daily customer imbalance, and storage withdrawal (injection) available for balancing. SoCalGas does not, however, post forecast information segregated by the three major market sectors – core, noncore commercial and industrial load, and noncore electric generation.

SoCalGas also does not post all operational information that could be useful in anticipating an OFO or EFO. For example, SoCalGas refuses to post current information regarding "linepack." SoCalGas also does not provide an explanation of significant changes from one nomination cycle to the next. Tracking linepack throughout the gas day provides information about whether shippers are delivering too much supply, or too little supply to keep the system in balance. PG&E provides this information; SoCalGas should as well. SoCalGas also does not explain how it forecasts send-out (demand) in each nomination cycle.

Noncore customers will be better able to anticipate OFOs if SoCalGas posts information on Envoy more frequently, if SoCalGas is more transparent with the information posted, and if SoCalGas provides more detail on the methodology used in its forecast calculations. The CPUC should direct SoCalGas to increase the amount of operational information posted (including linepack), and should increase the number of times per day when this information is updated. Increased posting of SoCalGas' forecast supply and demand information will enable customers and their suppliers to anticipate an OFO and take actions (increase or reduce gas procurement) to bring supply and demand in balance to reduce the likelihood or duration of an OFO, and mitigate the impacts of OFO/EFO noncompliance charges.

5. Meeting Peak Period Gas Demand: The joint agencies should explore and propose solutions, including gas supply solutions, to enable SoCalGas to meet peak gas demands. Gas supply solutions could take the form of additional imports at Otay Mesa, possibly from LNG supplies. The cost of using LNG delivered at Otay Mesa as a "peaking gas supply" would likely be lower than the cost of rolling blackouts for the number of days identified in the Reliability Plan over the course of the summer.

Gas delivered to Otay Mesa will stabilize supply and demand on SoCalGas' Southern System, allowing gas delivered at Ehrenberg, as well as at receipt points on SoCalGas' northern system to be used to serve the Los Angeles Basin, which is the area most directly affected by the unavailability of Aliso Canyon. When gas is injected at Otay Mesa, the impact at Moreno Valley is relatively fast, corresponding to the compressibility of the gas. Deliveries of LNG at Otay Mesa should be properly evaluated for their effectiveness and potential to mitigate peak demand requirements.

6. Actions to Improve Gas/Electric Coordination Must be Clarified and Made More Transparent: The Reliability Plan calls for increased efforts to improve gas-electric coordination, efforts that are intended to ensure that electric dispatch is tailored more specifically to the quantity of gas that is available within gas balancing constraints. By modifying electric dispatch in this manner, the cost of the constraints can be reflected in the cost of energy, and the potential for electric generators to incur balancing penalties can be mitigated significantly.

This approach is sensible and workable as long as it is accomplished in a manner that does not usurp what flexibility remains in the natural gas storage system disproportionately to the share of storage flexibility to which electric generation is entitled. Specifically, additional clarity and transparency must be afforded to the protocols that will be employed to implement this enhanced gas/electric coordination. The joint agencies and SoCalGas should provide the information necessary to understand how the CAISO protocols will change the amount of daily storage withdrawal that is available for SoCalGas to balance the system overall.

Tariff changes for SoCalGas should also be identified and revised to allow for the CAISO to properly dispatch multiple units within a gas zone yet allow those gas suppliers to the electric generators to appropriately manage imbalances and ensure that those units re-dispatched by the CAISO are not penalized through gas tariffs. Ongoing coordination with the CAISO must be a priority.

These issues are under consideration at the CAISO. The Reliability Plan must be updated and adjusted to reflect what is decided in the CAISO's action plan.

7. Greater Transparency is Needed With Respect to the Status of Well Testing Operations at Aliso Canyon: The Department of Oil Gas and Geothermal Resources ("DOGGR") provides a valuable update on its website with respect to the status of well testing that is ongoing at the Aliso Canyon field. However, it is increasingly clear that more information is needed so that all market participants are able to make gas procurement decisions with the same level of detailed information. In short, what SoCalGas knows about the status of well testing, the likelihood of resuming operations there, and the timing of these events is what all market participants should know.

To achieve this balance, greater transparency is necessary with respect to the status and trajectory of well testing, so that market participants can assess the likelihood of whether (or when) Aliso Canyon may return to service, and in what increments. Toward this end, public disclosure of the following information should be required, with the disclosures being made as frequently as there are changes:

- Status of well testing for each well;
- Estimated time until well testing is complete for each well (and for each group of wells included in a batch);
- Status of DOGGR assessment of the testing results;
- Updated projection of the date when each well (or batch of wells) will be placed into service for withdrawals and injections;
- Projection of the percentage of injection/withdrawal capability that will be restored for each well; and
- Whether any testing information is being withheld for confidentiality reasons and what those reasons are.

The Joint Parties also support an incremental return of wells (or batches of wells) to service at Aliso Canyon, if that can be safely accomplished. In view of core customers' reliance on Aliso Canyon storage withdrawals in the winter months, the joint agencies should take the steps necessary to restore service to Aliso Canyon wells as the testing process is complete and the safety of the wells has been established.

III.

CONCLUSION

The Joint Parties appreciate this opportunity to provide these comments and remain committed to working with the California energy agencies to address the issues created by the unavailability of Aliso Canyon.

Sincerely,

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