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Joint Agency Workshop on Southern California Natural Gas Prices

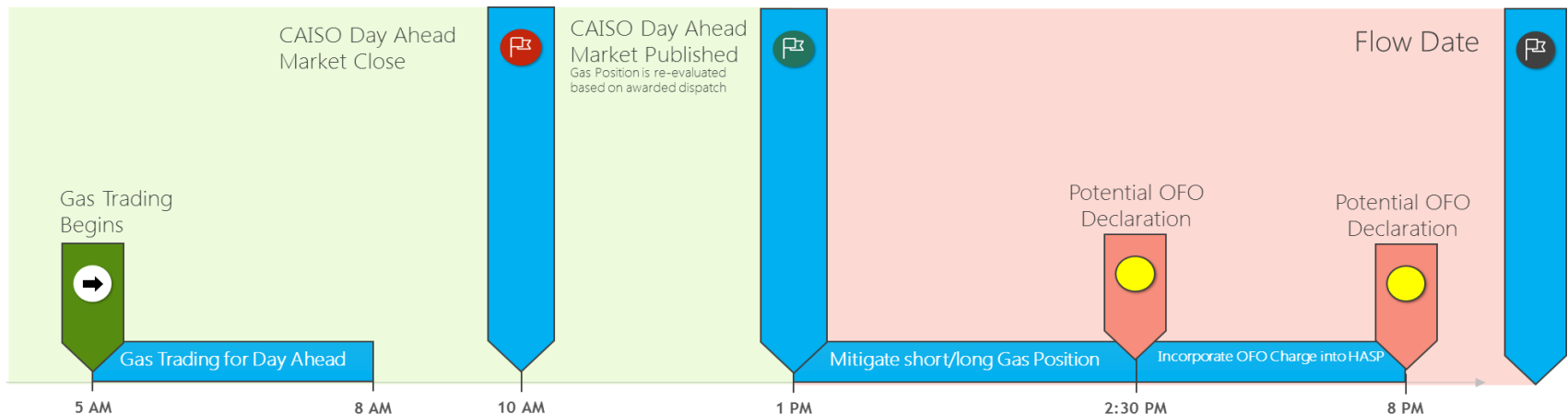
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SoCalGas (SCG) system constraints impact southern California's gas and electric systems and increase customer energy costs

- On-going SCG pipeline maintenance and restricted Aliso Canyon storage operations lead to frequent Operational Flow Order (OFO) calls, that at times, have a significant impact on gas and power prices
 - SoCal Border (SB) gas price point and SCG "citygate" price point are experiencing historic price differences; in comparison, PG&E citygate prices are at times lower than SB prices
 - Small volumes of OFO penalty price-influenced gas can disproportionately impact power costs
 - SCE's 2018 year-end ERRA (energy costs) balancing account was undercollected by \$833 million, most of which was directly attributable to higher summer and winter energy commodity prices
- Gas and power market scheduling practices exacerbate gas supply and pricing uncertainty for CAISO-connected Electric Generators (EGs) because >90% of gas supplies are procured before electric generation schedules are known



Most CAISO-connected gas-fired EGs do not have economic incentive to procure firm gas supplies

- CAISO EGs must recover their fuel costs from economic dispatch in CAISO's wholesale power markets or from the sale of fixed-price energy
 - Precludes long-term commitments for firm gas pipeline transportation or fixed price gas supplies because these costs are not recoverable from power markets when the EG is not dispatched
 - IOUs and munis are an exception; IOUs can utilize their ERRA balancing accounts to recover firm supply and/or fuel hedging costs, but this does not translate to independent (IPP) generator costs
- When SCG backbone capacity is constrained, limited ability exists for EGs to procure gas at the SB and utilize SCG interruptible capacity to deliver to the citygate
 - Results in EGs becoming "price-takers" at the citygate with supply options generally limited to SCG Core or marketer transactions
 - SCG citygate price hedge markets are illiquid because of limited physical supply options
- Infra-marginal CAISO EGs can benefit from increased citygate prices when a SCG-served EG is the marginal generation resource
- IPP EGs aren't responsible for electric system reliability or retail customer cost impacts
- Many Load Serving Entities have policy preferences or mandates to avoid procurement with gas-fired generation, which results in a higher level of IPP-managed bidding than has historically occurred

Recommendations to reduce energy price impacts and support gas and electric system reliability

- Immediate:
 - Reduce the \$25/MMBtu component of OFO Stage 4 and 5 penalty events to \$5/MMBtu on an interim basis while SCG operations are limited
- Near-Term:
 - Require Core to balance supplies to actual demand (or estimated actuals)
 - Temporarily suspend the backbone priority capacity allocation system and revert to “pro-rata” allocations to shift commodity pricing to more liquid SB trade points
 - “Net out” daily imbalances against any monthly OFO penalties if the daily imbalance supported gas system reliability
- Longer-Term
 - Implement a full requirements cost-based natural gas supply procurement tariff for CAISO-connected EGs
 - Will enhance gas supply reliability and reduce power price impacts