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18-IEPR-03 Comments of Shell Energy North America (US), L.P. on January 11, 2019 Workshop

Attached are the comments of Shell Energy North America (US), L.P. on the January 11, 2019 Workshop in Docket No. 18-IEPR-03.

Heather Karlstad, Legal Secretary to
John W. Leslie
Attorneys for Shell Energy North America (US), L.P.

Additional submitted attachment is included below.

大成 DENTONS

John W. Leslie
Partner

john.leslie@dentons.com
D +1 619 699 2536

Dentons US LLP
4655 Executive Drive
Suite 700
San Diego, CA 92121
United States

dentons.com

Via CEC Electronic Comment System

January 25, 2019

California Energy Commission
1516 Ninth Street, MS-29
Sacramento, CA 95814

Re: Docket No. 18-IEPR-03: Comments of Shell Energy North America (US), L.P. on January 11, 2019 Workshop

To: California Energy Commission:

In accordance with the schedule established in the December 20, 2018 "Notice of Joint Agency Workshop on Southern California Natural Gas Prices," Shell Energy North America (US), L.P. ("Shell Energy") submits its comments on the presentations made and issues addressed at the January 11, 2019 workshop in the above-referenced IEPR proceeding. The bottom line from the presentations is this: Frequent OFOs and volatile citygate gas prices will be substantially mitigated when SoCalGas makes the necessary repairs to its backbone transmission pipelines and restores receipt point capacity to historical levels of availability. Shell Energy urges the Public Utilities Commission ("CPUC") to use its authority to direct SoCalGas to accelerate its efforts to achieve rapid completion of repairs on SoCalGas Lines 235, 3000 and 4000, and to return these pipelines to full service.

I.

INTRODUCTION

During the January 11 workshop, stakeholders described the transmission pipeline outages that currently hinder operations on the SoCalGas system, reducing total receipt point capacity by 770 MMcf/day at a time when utilization of Aliso Canyon storage is also limited. The combination of reduced receipt point capacity and limited storage withdrawal capacity has resulted in capacity constraints on certain days when gas demand is high (primarily during four months of the year).

Limited pipeline availability and constrained delivery capacity have led to frequent OFOs. Frequent OFOs have led to price volatility, including dramatic price increases, at the SoCalGas citygate. Volatility in the SoCalGas citygate price has resulted in high procurement costs for all customers purchasing gas at the citygate, including but not limited to electric generation ("EG") customers.

Shell Energy agrees with the stakeholders that encouraged the CPUC to take action to direct SoCalGas to accelerate its repairs on the pipelines that are currently out of service. SoCalGas has sufficient pipeline capacity to meet expected gas demand on its system, but it must bring its pipelines back to full service to provide the delivery capability that is needed to meet peak demand requirements. Vast quantities of reasonably priced gas are poised to enter the southern California market at the SoCal border. Price volatility at the SoCalGas citygate is not a supply problem. Price volatility is directly attributable to SoCalGas' limited receipt point capacity. High prices reflect "scarcity pricing" that arises from the unavailability of transmission capacity at desired receipt points.

Limits on SoCalGas' receipt point capacity have significantly contributed to the increase in the number and frequency of OFOs instituted by SoCalGas. Many of these OFOs are avoidable if SoCalGas can repair its pipeline system and flow shippers' contracted BTS volumes at all receipt points. Repairing SoCalGas' pipelines and requiring SoCalGas to balance its core gas deliveries to actual core gas usage (the subject of A.17-10-002) will provide immediate, material relief to all customers by reducing the number of OFOs and reducing citygate price volatility.

Furthermore, the Commission should suspend shareholder awards under SoCalGas' Gas Cost Incentive Mechanism ("GCIM") until SoCalGas' transmission system is fixed. In this low gas price environment, there is no justification for the CPUC to allocate millions of dollars of gas cost "savings" to SoCalGas' shareholders just because SoCalGas' Gas Acquisition Department is able to take advantage of its monopoly assets to beat the first of the month index price for core natural gas procurement. Instead of "rewarding" shareholders, the Commission should direct SoCalGas to apply its gas cost savings to make its system more reliable.

II.

RESPONSE TO SCE PROPOSALS TO MODIFY EXISTING BALANCING RULES

At the workshop, SCE made several proposals, two of which are the subject of separate proceedings at the CPUC. Shell Energy briefly comments on the proposals that are being addressed in ongoing CPUC proceedings:

First, Shell Energy agrees with the position taken by SCE, the Indicated Shippers, and Southern California Generation Coalition ("SCGC") in A.17-10-002, urging the CPUC to direct SoCalGas to balance its core gas deliveries to actual core gas usage on OFO days. Balancing core gas deliveries to actual core gas usage may reduce the number of OFOs, thereby reducing the occasions on which price volatility arises at the SoCalGas citygate. Reducing the number of OFOs will reduce gas costs for all customers, including EG customers. In this connection, the CPUC should be wary of SoCalGas' claims that it will cost $640 million to implement core balancing to actuals, when SoCalGas has already spent $1 billion to install AMI technology.

Second, Shell Energy does not support SCE and SCGC's proposal (in A.14-06-021 and A.14-12-017) to reduce the low OFO noncompliance charge from $25.00 to $5.00 in a Stage 4 or Stage 5 OFO. Reducing the low OFO "penalty" will discourage shippers from making the intraday nomination adjustments that are necessary to bring the system into balance on OFO days. Instead, shippers may decide simply to "take the penalty."

If the low OFO noncompliance charge is an insufficient incentive for shippers (including EG customers) to modify their conduct to balance deliveries against actual usage, SoCalGas may be forced to call more EFOs, with even greater potential penalties. If a reduction in the Stage 4 and Stage 5 low OFO noncompliance charge is to be made, the low OFO noncompliance charge should still be set at a level that is adequate to encourage customers and shippers to bring their daily gas deliveries into balance.

During the workshop, SCE's representative stated that SCE does not hold firm BTS capacity on the SoCalGas system. Under normal circumstances, holding firm BTS rights provides a hedge against price volatility at the citygate. Even customers/shippers that hold firm BTS capacity, however, have not been able to use the full amount of capacity for which they have paid, because SoCalGas frequently "cuts" or "windows" firm BTS shippers' scheduled nominations.

Firm BTS shippers must pay a BTS reservation charge whether or not they are able to use the BTS capacity they have purchased. Nevertheless, when SoCalGas fails to provide firm BTS service through the BTS tariff, SoCalGas refuses to refund or credit any portion of shippers' BTS reservation charges. The CPUC should direct SoCalGas to refund BTS reservation charges when firm BTS capacity is not available in the quantities sold by SoCalGas.

III.

RESPONSE TO SCE'S PROPOSED STRUCTURAL CHANGES

SCE made two proposals at the workshop that are not the subject of current proceedings before the CPUC. Shell Energy comments on these proposals below. If SCE seeks to pursue these proposals, the proposals should not be advanced casually in a "workshop." Both of these proposals seek dramatic changes to SoCalGas' existing gas transportation structure. Any serious consideration of these proposals must be undertaken in a formal CPUC proceeding.

A. <u>The BTS Program Should Not Be Suspended</u>

SCE proposes that the CPUC temporarily suspend SoCalGas' backbone transportation service ("BTS") program and associated tariffs. The current features of the BTS program were approved by the CPUC in D.11-04-032 (April 14, 2011). The BTS program superseded the firm access rights ("FAR") program, which was adopted in D.06-12-031 (December 14, 2006). Through the BTS program, SoCalGas and SDG&E's receipt point capacity is reserved for core customers and otherwise allocated based on customers and shippers bidding for “firm” or “interruptible” BTS rights at individual receipt points. Under the BTS program, backbone costs are “unbundled” from end-use customers’ transportation rates.

At the workshop, SCE proposed that the BTS program should be suspended, but SCE did not state whether or how backbone transmission costs should be re-incorporated in end-use customer rates. SCE did propose, however, that while the BTS program is temporarily suspended, all shippers’ receipt point nominations should be “pro-rated” when nominations exceed available receipt point capacity. This approach, if adopted, would eliminate any market-based “spread” between the SoCal border price and the SoCalGas citygate price. In fact, suspension of the BTS program would effectively eliminate the SoCalGas citygate delivery point, and would effectively re-bundle backbone costs in customers’ transportation rates.

The BTS (and FAR) program has been in place for more than a decade. The CPUC adopted the BTS (FAR) program after an extensive hearing in which most, if not all gas industry stakeholders participated. In D.06-12-031, the CPUC stated: “This system will ensure that the holders of the FAR will be able to access the receipt points on the transmission system and have their gas transported to the designated delivery points.” Decision at p. 2. The BTS program has operated effectively by liberating noncore customers (including EG customers) from the burden of holding firm BTS rights and paying firm BTS reservation charges. Noncore customers have successfully relied on marketers and suppliers to hold (and pay for) these BTS rights, allowing noncore customers to pay volumetric citygate prices in a competitive marketplace.

As noted above, SoCalGas has in some cases sold more firm BTS rights at receipt points than is available. As a result, shippers have paid firm BTS reservation charges for BTS capacity that is nonexistent (or not available). If there is a change that should be made to the BTS structure, it is that SoCalGas should provide a refund (credit) of BTS reservation charges when the full amount of firm BTS capacity is not available. SoCalGas should not be rewarded for overselling its firm BTS capacity rights at specific receipt points.

Finally on this issue, one reason why the CPUC approved a FAR (BTS) structure was that a “pro-rationing” approach for nominations in excess of receipt point capacity encouraged shippers to over-nominate at preferred receipt points in order to enhance their allocation of capacity at favored receipt points. If the CPUC were to consider suspension of the BTS program in favor of a pro-rationing of shippers’ nominations at receipt points, the CPUC must address the “over-nomination” issue.

B. <u>A Bundled EG Sales Tariff Should Be Rejected</u>

SCE proposes that the CPUC allow (or direct) SoCalGas to establish a new “full requirements cost-based natural gas supply procurement tariff for CAISO-connected EGs.” In its workshop presentation, SCE stated that this bundled gas sales tariff for EG customers would “enhance gas supply reliability and reduce power price impacts.”

SCE's bundled EG sales tariff proposal, as presented, raises far more questions than it answers. A key question, however, is why SCE believes that SoCalGas must be called on to provide a tariffed gas supply option (or mandate) for EG customers, when multiple marketers and suppliers have the ability, resources and motivation to provide a reliable gas supply to EG customers under negotiated terms and conditions. SCE failed, in the workshop, to address why it cannot secure the gas supply service it seeks from participants in the competitive supply market.

Under SCE's proposal, SoCalGas would purchase gas supplies for participating EG customers, and sell this gas to its EG customers at a tariffed price. SCE's presentation provides no other details about how this tariff would operate. SCE's proposal raises numerous questions. For example, would there be a single portfolio from which SoCalGas would sell gas to its bundled core sales customers as well as EG customers? If so, would SoCalGas use its firm core storage rights and firm core interstate (and firm BTS) rights for this unified portfolio? Would the price be fixed for both core sales customers and participating EG customers -- for one month, as it is today for bundled core sales customers, or for some other period? Would the procurement price be the same for bundled core sales customers and bundled EG sales customers? If EG customers are served from the same supply portfolio as core customers, how would this approach affect an EG customer's transportation priority rights (service curtailment, etc.)? How would this proposal affect core customer reliability, and the gas price paid by SoCalGas' bundled core sales customers?

If the gas supply portfolio for participating EG customers were to be a separate portfolio from the core portfolio, would SoCalGas establish a separate department to purchase gas for the EG portfolio? Would all administrative costs and facilities be separate, and would the costs associated with managing the EG portfolio be charged exclusively to participating EG customers (to avoid cross subsidies)? Would SoCalGas purchase any firm storage, firm interstate capacity and/or firm BTS rights to support the new EG gas supply portfolio?

Would all EG customers be required to purchase gas from this EG supply portfolio? Would an EG customer's procurement obligation be for one month, or for one year, or for some other time period? Would exit charges apply if an EG customer switches into or out of the EG portfolio? Would other noncore customers be allowed to purchase gas from this portfolio? How would SoCalGas handle the over- or undercollection of gas costs based on the tariff price compared to its actual purchased gas costs? Would there be a separate GCIM for SoCalGas' gas purchase costs for the EG supply portfolio?

SCE's proposal to establish a new SoCalGas EG supply tariff raises too many questions to address through a workshop process. If SCE wishes to pursue this proposed new bundled sales tariff, it should make a formal proposal in a CPUC proceeding.

IV.

CONCLUSION

As stated by many at the workshop, SoCalGas citygate price volatility will be substantially mitigated once SoCalGas fixes its pipelines and restores capacity at its receipt points. The CEC and the CPUC should focus efforts on directing SoCalGas to accelerate its actions to repair its transmission pipelines and return the pipelines to full service. Changes to the BTS structure, and changes to the rules for noncore customer gas procurement, are not required.

Respectfully submitted,

John W. Leslie
Attorneys for Shell Energy North America (US), L.P.

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