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**Comments of the Indicated Shippers and Energy Producers and Users Coalition on the Aliso Canyon Gas and Electric Reliability Winter Action Plan**

*Additional submitted attachment is included below.*

**BEFORE THE ENERGY COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of:

2016 Integrated Energy Policy Report –  
Natural Gas (2016 IEPR)

Docket No. 16-IEPR-02  
Natural Gas

**COMMENTS OF THE INDICATED SHIPPERS AND THE ENERGY  
PRODUCERS AND USERS COALITION ON THE ALISO CANYON GAS AND  
ELECTRIC RELIABILITY WINTER ACTION PLAN**

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**I. INTRODUCTION**

The Indicated Shippers<sup>1</sup> and the Energy Producers and Users Coalition<sup>2</sup> (IS/EPUC) appreciate the opportunity to provide comments on the Joint Agencies' Aliso Canyon Winter Risk Assessment Technical Report (Report) and the Aliso Canyon Gas and Reliability Winter Action Plan (Winter Action Plan) issued on August 22, 2016.

The Report suggests that all Southern California natural gas and electricity customers remain at risk for curtailment and outages this winter due to continuing restrictions on the use of Southern California Gas Company's (SoCalGas) Aliso Canyon storage field. Not all customers face the same risk or costs. Because core residential and commercial customers hold a higher priority in the curtailment scheme, noncore industrial and electric generation customers face a

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<sup>1</sup> Member companies include BP Energy Company, California Resources Corp., Chevron U.S.A. Inc., ConocoPhillips Company, Phillips 66 Company and Tesoro Refining & Marketing Company LLC.

<sup>2</sup> EPUC is an ad hoc group representing the electric end use and customer generation interests of the following companies: Aera Energy LLC, Chevron U.S.A. Inc., Phillips 66 Company, Shell Oil Products US, Tesoro Refining & Marketing Company LLC and California Resources Corp.

much higher risk of curtailment. Noncore customers also are facing greater challenges and costs in managing their natural gas supply as a result of the tighter balancing rules adopted by the California Public Utilities Commission (CPUC) in Decision (D).16-06-021. Core customers are much less likely to be affected by the tighter rules, since their suppliers are not required to balance their deliveries with actual consumption as noncore customers must do. To secure core reliability and mitigate the impact of maintaining reliability on noncore customers, IS/EPUC urge the Joint Agencies to adopt and implement several measures identified in the Winter Action Plan and integrate an additional measure to mitigate ineffectual balancing penalties.

The Winter Action Plan and Report highlight the critical importance of efforts to manage and restore Aliso Canyon capacity in reducing the risk of curtailment and outages this winter. Several other measures also hold promise in mitigating this risk:

- Continuing to control daily customer imbalances through the use of Operational Flow Orders (OFO), as provided in D.16-06-021 until Aliso Canyon returns to service;
- Modifying core balancing rules to require the utility's Gas Acquisition Group to balance deliveries under OFO conditions to actual consumption, as noncore customers are required to do today;
- Facilitating Liquefied Natural Gas (LNG) deliveries into SoCalGas Otay Mesa receipt point from Sempra's Costa Azul LNG facility, supporting reliability in both the Southern System and the LA Basin;
- Evaluating the potential for increasing California production deliveries into the SoCalGas system in areas where additional supply could assist in maintaining reliability; and
- Developing gas demand response programs, including programs for residential, commercial and industrial customers.

In addition to these measures, IS/EPUC recommend implementation of daily OFO imbalance trading. Permitting daily trading will help mitigate the risk of OFO penalties while Aliso Canyon remains restricted.

The Joint Agencies should pursue the proposed measures expeditiously as they continue to work toward the return of Aliso Canyon to full service.

## **II. COMMENTS**

### **A. Continued Use of Operational Flow Orders to Respond to Daily Conditions**

A settlement among SoCalGas, its customers and their suppliers has enabled SoCalGas to successfully manage its system this summer through the more frequent use of OFOs.<sup>3</sup> While the Joint Agency Summer Reliability Technical Assessment highlighted the potential for up to 16 gas curtailment days and 14 electric outage days, the adopted measures appear so far to be effective; no gas curtailments or electric outages have yet arisen from the Aliso Canyon restrictions.

Implementation of tighter balancing rules has exposed noncore customers to greater challenges and costs in managing their gas supply. Noncore customers have experienced daily balancing under OFOs more than half of the 100 days since the interim implementation of the rules:

- 35 days of Low OFOs at 5%;
- 24 days of High OFOs at 5%; and
- 2 days of overlapping High and Low OFOs.

Despite the best efforts of customers and their suppliers to manage their supplies within the OFO tolerances, daily imbalances can occur. Electric generators may be thrown materially out of balance by unanticipated dispatch by their system

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<sup>3</sup> The Settlement was adopted on an interim basis by an Assigned Commissioner's Ruling on May 27, 2016, and on a final basis by D.16-06-021 on June 9, 2016.

operator, and industrial customers may experience imbalances as a result of plant upsets or unanticipated changes in operations. In these circumstances, noncore industrial customers, and potentially electric generation customers,<sup>4</sup> face steep penalties ranging from \$0.25/dth to as much as 20 times the current natural gas commodity cost.<sup>5</sup>

The tighter balancing rules under D.16-06-021 are set to expire under the terms of the Settlement on November 31.<sup>6</sup> The Winter Action Plan proposes to extend these rules through this winter to maintain reliability. IS/EPUC do not oppose this measure if it will, as the Report suggests, support natural gas and electric service reliability this winter. The continued risk of penalties arising from this measure, however, should be partially mitigated through the adoption of daily OFO imbalance trading pending Aliso Canyon's return to full service, as discussed in Section B.

## **B. Daily OFO Imbalance Trading**

Trading of daily OFO imbalances during the extension period for the tighter balancing rules would benefit all entities subject to tighter balancing requirements for the upcoming winter. While all customers are currently subject to tighter balancing rules, noncore industrial customers and California natural gas producers bear the greatest exposure; D.16-06-021 granted SoCalGas the right to waive electric generator imbalance penalties under certain circumstances, and the methodology for determining core imbalances essentially eliminates the risk of penalties.<sup>7</sup> IS/EPUC support a measure to mitigate the impact of tighter

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<sup>4</sup> The Settlement allows SoCalGas to waive electric generator penalties under certain circumstances. See D.16-06-021 at 6-7.

<sup>5</sup> SoCalGas Rule 30, Section G.1.a provides for Low OFO penalties, and Section F provides for High OFO penalties.

<sup>6</sup> D.16-06-021, Ordering Paragraph 4 at 11.

<sup>7</sup> As discussed in Section [C], however, the core will have a significantly lower risk of penalties – perhaps no risk – absent a change in core balancing rules.

balancing: the adoption by the CPUC of a daily OFO imbalance trading generally using the approach identified by SoCalGas in its June 2016 Customer Forum. The detail of this proposed measure is provided in the Motion for Consideration of Winter Reliability Measures submitted by the Customer Coalition on August 17, 2016, in Application 15-06-020 (Winter Reliability Motion).<sup>8</sup>

Despite SoCalGas's origination of the OFO imbalance trading measure, its response to the Motion<sup>9</sup> suggests that imbalance trading could actually undermine reliability. This new position, in response to noncore customer challenges to SoCalGas's core balancing protocols, strains credibility. Why did SoCalGas raise this measure, as recently as June, if it believed the measure would undermine reliability?

SoCalGas now suggests that customers would not comply with OFOs based on the "gamble" that they could trade an imbalance away.<sup>10</sup> SoCalGas's new perspective is unfounded and overlooks tools that SoCalGas can employ if it were, in fact, to see a downturn in compliance with daily OFOs. Monthly balancing can lead to over- and under-deliveries, since imbalances over the course of 30 days may be traded and the trading market is thus more liquid. A customer or producer would be taking a material penalty risk, however, to violate an OFO requiring daily balancing and a high transaction risk by assuming other parties will have offsetting imbalances to trade. Moreover, if SoCalGas saw a new trend toward non-compliance, it could use Emergency Flow Orders or its higher penalty stages<sup>11</sup> to drive compliance. A customer is unlikely to "gamble" facing Stage 5 penalties of \$25.00/dth plus SoCalGas's Buy-Back rate.

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<sup>8</sup> <http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=166248618>

<sup>9</sup> Response of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) to the Motion of Southern California Edison Company on Behalf of the Customer Coalition for Consideration of Winter Reliability Measures, filed September 2, 2016, at 11-13.

<sup>10</sup> *Id.*

<sup>11</sup> Five penalty stages are defined in Rule 30 for Low OFOs, and the same structure will apply to High OFOs when D.16-06-039 is implemented.

SoCalGas also counters the daily trading proposal on grounds that it will not enhance winter reliability. IS/EPUC do not maintain that the trading proposal alone will enhance reliability. The trading measure is aimed to mitigate the unnecessary risk and cost resulting from a reliability measure -- an extension of the tighter balancing rules through the winter.

The daily OFO trading measure is aimed to address circumstances where, despite a customer's best efforts, it fails to balance delivery and consumption on an OFO day and is simply afforded the potential to mitigate some of its costs. Moreover, to the extent imbalance trading is possible, it is evidence of a system that was not, in aggregate, out of balance beyond the OFO tolerance. IS/EPUC propose that this measure be considered as a part of the Winter Reliability Action Plan.

### **C. Core Balancing**

The Winter Action Plan proposes revised core balancing rules to ensure that the core class, which dominates winter load, does not create excessive imbalances on an OFO day.<sup>12</sup> IS/EPUC support this proposal. The risk of core imbalances swinging the system out of its delicate balance under Aliso Canyon restrictions is real. The Declaration of Catherine E. Yap in support of the Winter Reliability Motion observes that from 2011-2015, "the Gas Acquisition Department's deliveries deviated from estimated actual core usage by more than five percent for about 85 percent of summer days and about 78 percent of winter days."<sup>13</sup> The deviation "exceeded 10% for nearly 60% of winter days and has exceeded 25% for about 20% of winter days."<sup>14</sup> The Winter Reliability Motion

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<sup>12</sup> Winter Action Plan at 21.

<sup>13</sup> Winter Reliability Motion at 12 (citing Declaration of Catherine E. Yap at 7-10).

<sup>14</sup> *Id.*

concludes that “continuation of this pattern through the winter materially increases the risk of curtailment for noncore and potentially core customers.”<sup>15</sup>

SoCalGas obscures the problem by maintaining that the aggregated core load managed by SoCalGas’s Gas Acquisition Group is subject to the “same” balancing rules as noncore customers. This statement overlooks the marked difference in impact of the rules due to differences in the way SoCalGas determines compliance for core and noncore customers. Noncore imbalances assess the real-time system impact, comparing deliveries to *actual* consumption for an OFO day; core imbalances do not assess real-time impact, but compare deliveries to *forecast* consumption determined at 5:00 a.m. Consequently, if the core forecast is inaccurate, core deliveries and consumption can be physically out of balance but within tolerance as SoCalGas applies the rules.

The Winter Reliability Motion proposes two alternatives to address this problem. First, the CPUC could require the Gas Acquisition Group to balance core deliveries to actual usage data generated real-time through Advanced Metering Infrastructure (AMI) meters.<sup>16</sup> The Winter Action Plan leads in this direction, suggesting that “SoCalGas should assure that meter read information for the first portion of the gas day is analyzed and transmitted to the system operators....”<sup>17</sup> Second, the Gas Acquisition Group could be required to balance core deliveries within a specified percentage of the core estimated actual usage data, calculated by subtracting noncore and core aggregation usage from total system usage.<sup>18</sup>

Other alternatives could also be developed that would improve on the current rules. For example, the Gas Acquisition Group could be required to balance to a later forecast (e.g., 8:00 p.m.), and non-compliance charges could

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<sup>15</sup> *Id.*

<sup>16</sup> Winter Reliability Motion at 13-14.

<sup>17</sup> Winter Action Plan at 21.

<sup>18</sup> *Id.* at 14-15.

be imposed for material deviations between SoCalGas's forecast and actual core usage. Taking this approach would provide better incentives to drive better forecasting and balancing using all tools available to SoCalGas – historical data, current forecasts, AMI meters and other data points.

Continuing to allow the Gas Acquisition Group's deliveries to deviate substantially from actual core consumption, alone, may cause curtailments this winter.<sup>19</sup> Those curtailments almost certainly would fall on noncore customers, rather than higher priority core customers. Continuing to require noncore customers to manage their gas supplies within tight tolerances on a daily basis, while permitting core customers to miss the mark by up to 50% without penalty, discriminates unreasonably against noncore customers. IS/EPUC support swift action by the CPUC on this issue.

#### **D. Costa Azul LNG**

The Winter Action Plan recommends that the Energy Commission and CPUC investigate the potential use of supply from Sempra's Costa Azul LNG terminal to mitigate curtailment risk this winter. IS/EPUC support this recommendation.

The Summer Reliability Technical Assessment observed that SoCalGas has the challenging task of balancing the risk of shortage on the Southern System with the risk of shortage in the LA Basin.<sup>20</sup> Comments from a coalition of customers and suppliers suggested that ensuring adequate supply into the Southern System – from Costa Azul through the Otay Mesa receipt point -- could both prevent supply shortages on that system as well as the LA Basin.<sup>21</sup> The Winter Reliability Action Plan responds to that suggestion, observing that

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<sup>19</sup> See Winter Reliability Motion at 12-15 and supporting Declaration of Catherine E. Yap.

<sup>20</sup> Aliso Canyon Summer Reliability Technical Report at 23 and Figure 7.

<sup>21</sup> Comments of Agricultural Energy Consumers Association et. al. on Aliso Canyon Action Plan at 15-16.

“[a]dditional gas supply of 200 mmcf/d on a day when curtailments are forecast could be a substantial mitigant to the total load requiring curtailment.”<sup>22</sup> Indeed, this approach to reliability has been used successfully in Massachusetts.<sup>23</sup>

For these reasons, IS/EPUC support the recommendation to further investigate the use of Costa Azul to support reliability, clearing any regulatory hurdles impeding this promising measure.

#### **E. California Natural Gas Production**

The Winter Action Plan questions whether more California-produced gas could be delivered into SoCalGas’s Line 85 and coastal system to support Southern California reliability.<sup>24</sup> The Action Plan appropriately observes that the availability of California-produced gas may be a function of low oil prices, since much of the gas is “associated gas” resulting from oil production. While oil prices materially affect the prospect of moving additional California-produced gas into SoCalGas’s system, there are other opportunities that can be considered in answering the Action Plan’s question.

First, the economic factors in play go beyond oil prices. Certain production fields have access to both the in-state and interstate transportation alternatives. The tariffs and rules governing the SoCalGas system tend to drive existing production toward the interstate alternatives. In addition, high interconnection costs discourage interconnection of new wells to the SoCalGas system. Overcoming these hurdles will require a review of rates, interconnection costs, balancing rules and other issues for California production.

Second, producers may have the capability today to provide a day-ahead dispatchable product to support Line 85. Again, the question is whether the economics are sufficiently attractive to divert the supplies from other uses.

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<sup>22</sup> Winter Reliability Action Plan at 22.

<sup>23</sup> See Comments of Agricultural Energy Consumers Association et. al. on Aliso Canyon Action Plan at 15-16.

<sup>24</sup> *Id.* at 22.

Longer term development alternatives could be available, if economically attractive, to support a late cycle or real-time dispatchable product for much larger quantities.

Third, California production offers the potential, in a long-term scenario, for additional storage capacity to serve SoCalGas. Storage fields are often developed from depleted oil and gas reservoirs. Opportunities exist today to develop additional storage capacity in Southern California, which are located in areas that already support industry and are typically removed from population centers. SoCalGas is no doubt aware of these opportunities, but has not pursued them. Moreover, with SoCalGas dominant in the Southern California storage market, there is little incentive for competitive projects.

#### **F. Natural Gas Demand Response**

The Action Plan observes that “the time is now to design and implement a program that would create positive financial incentives for core and noncore customers to reduce natural gas demand in advance of and in order to reduce the magnitude of gas curtailments.”<sup>25</sup> Electric reliability in Southern California increasingly depends on the positive incentives of demand response programs administered by the electric utilities. Outages are a last resort, occurring only if available supplies and demand response are insufficient to meet demand. While natural gas and electric systems differ in many ways, there is no apparent reason why SoCalGas could not develop and rely on demand response, relying on incentives before turning to penalties to change customer behavior. Demand response may require modifications to other rules, such as balancing, to accommodate responsive changes in consumption. IS/EPUC support the Action Plan’s call for further investigation of demand response alternatives for both core and noncore customers.


### **III. CONCLUSION**

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<sup>25</sup> Winter Reliability Action Plan at 20.

For all the foregoing reasons, IS/EPUC support action on the mitigation measures discussed in these comments. If the tighter balancing rules are extended through the winter, as the Action Plan proposes, the CPUC should also adopt a daily OFO trading measure to mitigate unnecessary penalties on customers and producers this winter.

Respectfully submitted,

A handwritten signature in black ink, reading "Evelyn Kahl". The signature is written in a cursive, flowing style.

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Coalition

September 9, 2016