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Joint Comments of the Alliance for Retail Energy Markets and Shell Energy North America (US), L.P. on the Aliso Canyon Gas and Electric Reliability Winter Action Plan

Additional submitted attachment is included below.

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Via E-Mail: Docket@energy.ca.gov
Via E-Mail: Lana.Wong@energy.ca.gov

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

The Alliance for Retail Energy Markets ("AReM")[1] and Shell Energy North America (US), L.P. (hereinafter, "Joint Parties") provide comments on the "Aliso Canyon Gas and Electric Reliability Winter Action Plan" ("Winter Action Plan") that was issued on August 15, 2016 by the staffs of the CEC; CPUC; CAISO; and LADWP ("joint agencies"). The Winter Action Plan was discussed at a joint agency workshop that was held on August 26, 2016.[2]

The Joint Parties generally support the mitigation measures that are presented in the Winter Action Plan. The Joint Parties urge the joint agencies to add, to the list of mitigation measures, development of a protocol to trade daily imbalances on the Southern California Gas Company ("SoCalGas") and San Diego Gas & Electric Company ("SDG&E") systems on operational flow order ("OFO") days. As a threshold matter, however, the joint agencies must elicit from SoCalGas better information regarding the status of well testing and the timing and extent of renewed storage injections at Aliso Canyon.

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[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.

[2] On April 22, 2016, AReM and Shell Energy provided comments on the joint agencies' "Aliso Canyon Action Plan to Preserve Gas and Electricity Reliability for the Los Angeles Basin."

I.

FURTHER CLARITY IS REQUIRED ON THE STATUS AND OUTLOOK FOR ALISO CANYON

In a response filed with the CPUC in Docket No. A.15-06-020 on September 2, 2016,[3] SoCalGas states that it "expects high injection rates to begin at Aliso Canyon prior to the upcoming winter season, which, in turn, will allow the field to provide significant deliverability for winter reliability." Response at p. 22. SoCalGas' statement appears to be in direct conflict with the well testing data that SoCalGas files on a biweekly basis with the Division of Oil, Gas and Geothermal Resources ("DOGGR"), raising serious questions as to whether Aliso Canyon can be restored to "high injection rates" before the onset of the winter season.

The most recent data provided by SoCalGas to DOGGR shows that only 20 out of the 114 wells at Aliso Canyon have passed all the tests required under the protocol established under SB 380. SoCalGas further reports that 79 wells have been taken out of operation; and that the results of the testing process remain pending for 15 wells. Presuming that none of the wells that have been taken out of operation will be available this coming winter, that means that at most there could be only 35 wells available for injection this winter -- and that is only if the 15 wells that remain pending with respect to the testing protocols successfully pass all the tests. This is a mere 31 percent of the total number of wells in the field -- not a number that supports a claim of "high injection rates" this coming winter.

Unless a significant number of the wells that have been "taken out of operation" can be remediated for service immediately after Aliso Canyon is allowed to resume operation, SoCalGas' statement about its ability to begin "high injection rates" at Aliso Canyon has no basis in fact. If many of the wells that are currently "taken out of operation" can be returned to service once injections at Aliso Canyon resume, market participants should know precisely how that will be accomplished: what steps will be required, how long the remediation will take, and how much remediation will cost. Market participants should be able to make their own assessments as to field operability in order to plan for gas procurement during the winter season.

[3] A.15-06-020, "Response of [SoCalGas and SDG&E] to the Motion . . . of the Customer Coalition for Consideration of Winter Reliability Measures" (dated September 2, 2016).

Transparency is a key part of the process in restoring Aliso Canyon to service. The Joint Parties therefore urge the joint agencies to require SoCalGas to immediately explain the discrepancy between its reports to DOGGR and its claims of "high injection rates." SoCalGas should be required to provide market participants with complete information on the expected status of well availability at Aliso Canyon.

II.

SUMMARY OF RECOMMENDATIONS

In view of the legal and regulatory hurdles that must be overcome by SoCalGas before Aliso Canyon storage injections resume, the joint agencies should be concerned that the limited availability of Aliso Canyon will continue through the winter months. As a result, the joint agencies should continue to support measures to mitigate the potential for system disruptions, increased costs, and curtailment of noncore customer load during peak demand conditions. The Joint Parties support the Winter Action Plan's recommendation to extend the current tightened balancing rules for noncore customers through the winter season.[4] The Joint Parties agree with the joint agencies' statement that "[t]he revised rules are costly to noncore customers but appear to have helped reduce the risk of gas curtailment." Winter Action Plan at p. 20.

Moreover, because core gas usage replaces electric generation as the largest source of demand on the SoCalGas/SDG&E system in the winter months, it is critical to address balancing rules for core customers on OFO days. The Joint Parties therefore support the Winter Action Plan's recommendation to require SoCalGas' Gas Acquisition Department (on behalf of core bundled sales customers) to balance core gas deliveries against a more accurate measure of core usage.

In addition, in view of the Winter Action Plan's acknowledgment that the tighter balancing rules have increased the frequency of OFOs and imposed added costs on noncore customers, the Winter Action Plan should be amended to include a directive to SoCalGas to provide for the trading of daily imbalances on OFO days. Providing a platform that allows customers and their suppliers to trade daily imbalances (after the end of the Gas Day) will offer mitigation for the increased procurement costs and OFO noncompliance charges that result from the increased incidence of OFOs.

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[4] The current restrictive balancing rules were agreed upon in a settlement that was approved by the CPUC in D.16-06-021 (June 9, 2016).

While mitigation of OFO-related costs may not directly enhance system reliability, it would be unwise and unnecessary for the joint agencies to turn a blind eye to the very real economic consequences of the increased frequency of OFOs. The joint agencies should include easily implemented measures for trading daily imbalances in the Winter Action Plan.

Finally, the Joint Parties support the joint agencies' efforts to identify and increase additional sources of gas supply for delivery to the SoCalGas/SDG&E system. The Joint Parties agree that the CEC should explore whether California gas producers can increase deliveries to the SoCalGas system. And, the joint agencies should investigate the opportunities for the purchase of liquefied natural gas ("LNG") that is delivered to the Otay Mesa receipt point.

III.

ISSUES TO BE HIGHLIGHTED IN THE WINTER ACTION PLAN

1. Core Balancing Requirements: The Joint Parties support the Winter Action Plan's proposed mitigation measure to enhance core balancing rules to ensure that SoCalGas' core gas deliveries match actual core usage as closely as possible on OFO days. The CPUC should adopt measures that can be implemented prior to this coming winter to require SoCalGas to balance core gas deliveries against actual core customer usage (or at a minimum, a more reliable, up-to-date and verified forecast of core usage) on OFO days.

Addressing core balancing is key to mitigating the potential for curtailment of noncore load in the upcoming winter season, in the likely event Aliso Canyon availability continues to be limited. The joint agencies should encourage the CPUC to adopt a new protocol that requires SoCalGas to align the rules for balancing core customer load with the rules for balancing noncore customer load.

As SoCalGas continues to implement Advanced Metering Infrastructure ("AMI") for all of its customers, including core customers, and as daily metering (actual usage) data becomes available for billing and measurement, AMI data should be relied on by SoCalGas' Gas Acquisition Department for balancing bundled core customers' loads. At a minimum, SoCalGas' Gas Acquisition Department should be required to rely upon (and balance gas deliveries against) a late-in-the-day Gas Day core load forecast rather than a forecast that is provided in the early morning of the Gas Day.

2. Permit Daily Imbalance Trading After the End of an OFO Day: The Winter Action Plan acknowledges the increased costs for noncore customers under the tightened balancing rules that were adopted for the 2016 summer season. See Winter Action Plan at pp. 8, 19, 20. Although the Joint Parties support continuation of these tightened balancing rules through the winter of 2016-2017 in order to maintain system reliability, noncore customers and their suppliers must have a means by which to mitigate the cost impact associated with the increased frequency of OFOs. The cost impact includes both the increased cost of procurement and the cost associated with OFO noncompliance charges.

Under current rules (SoCalGas Schedule G-IMB), customers and their suppliers may not trade daily imbalances in excess of daily imbalance tolerances after an OFO event. Under the enhanced restrictive balancing rules that were placed into effect for the summer months, however, SoCalGas customers have experienced a significant increase in the number of OFOs called by SoCalGas. Between June 1, 2016 and September 10, 2016, SoCalGas called 35 low OFOs and 24 high OFOs. On two days during this period, SoCalGas called a high OFO and a low OFO on the same day.

In order to bring a customer's gas supplies into balance on an OFO day, a noncore customer or its supplier may have to take steps late in the Gas Day that impose added costs -- either purchase additional gas at a premium, or sell excess gas at a discount. Moreover, on any OFO day, the collective efforts of noncore customers and suppliers to deliver sufficient gas supplies to the system to meet the OFO requirements may result in the institution of an OFO in the other direction based on SoCalGas' adjusted forecast of scheduled deliveries. A noncore customer can be caught in an daily overdelivery situation even when it has taken every precaution to deliver sufficient gas supplies to the SoCalGas system to meet its full daily demand to avoid low OFO noncompliance charges. Customers and suppliers should have a means by which to mitigate the costs associated with the unpredictability of the incidence of high and low OFOs throughout the coming winter season.

In order to mitigate the cost impact of purchasing (or selling) gas late in the Gas Day to avoid OFO penalties, as well as the cost impact of OFO noncompliance charges, the Winter Action Plan should include a mitigation measure that calls upon SoCalGas to facilitate the trading of daily imbalances on OFO days. Allowing the trading of imbalances after the end of an OFO day will not affect the overall level of a system imbalance on an OFO day. However, daily imbalance trading will help noncore customers and their suppliers offset OFO noncompliance charges.

3. Prepare to Buy LNG: The Joint Parties support the Winter Action Plan's proposals to explore means by which to obtain additional gas supplies for the SoCalGas/SDG&E market. The CEC is looking into the potential for California producers to increase deliveries into the SoCalGas system. The Joint Parties also support the joint agencies' proposal to investigate potential opportunities regarding SoCalGas' purchase of LNG that can be delivered through the Otay Mesa receipt point. Purchases of LNG for delivery to the SDG&E system can mitigate storage limitations that currently restrict gas deliveries to the L.A. Basin.

Gas delivered from the Costa Azul LNG facility to Otay Mesa will allow gas delivered at Ehrenberg, as well as gas delivered at receipt points on SoCalGas' northern system, to be used to serve the L.A. Basin, which is the area most directly affected by the unavailability of Aliso Canyon. The cost of using LNG delivered at Otay Mesa as a "peaking" gas supply should be competitive with the cost of purchasing alternative supplies during peak demand periods and/or periods of limited supply availability.

IV.

CONCLUSION

The Joint Parties appreciate this opportunity to provide comments on the Winter Action Plan. As a threshold matter, there is a need for increased transparency with respect to the status of well testing and the resumption of storage injections at Aliso Canyon. Beyond this critical issue regarding the limited availability of Aliso Canyon, the Joint Parties urge the joint agencies to pursue aggressively the listed mitigation measures, as well as an additional mitigation measure providing for the trading of daily imbalances on OFO days.

Sincerely,

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