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SMUD Natural Gas Outlook Comments

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Additional submitted attachment is included below.

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

In the matter of:) Docket No. 17-IEPR-04
)
2017 Integrated Energy Policy Report) RE: SMUD Comments On Natural
(2017 IEPR)) Gas Outlook Workshop
)
) October 23, 2017

Comments of the Sacramento Municipal Utility District on the October 9, 2017 Natural Gas Outlook Workshop

The Sacramento Municipal Utility District (SMUD) appreciates the opportunity to provide these comments to the California Energy Commission (CEC) on the October 9, 2017, Natural Gas Outlook Workshop.

SMUD only serves natural gas to its own power plants, and has no retail natural gas customers. However, due to SMUD's purchases of natural gas and biomethane for use in those power plants, SMUD has an abiding interest in the integrity and efficiency of the wholesale natural gas marketplace, and in particular, in proposals which suggest significant changes to these markets. The proposed "gas imbalance market" structure is such a change, which SMUD sees as premature at best, and damaging to the marketplace at worst. From a near-term operational perspective, SMUD opposes the adoption of this market design for Northern California gas markets. SMUD understands that the proposal *may* have benefits in the Southern California operating region for which it appears to be designed, but within the Pacific Gas and Electric (PG&E) Northern California market, it may ultimately prove detrimental both from an economic and operational perspective.

Specifically, SMUD has the following concerns about the proposal:

- The proposal includes a daily five percent (5%) tolerance band on imbalances, which is not only very difficult to achieve, but counterproductive most of the time. SMUD and others have consistently raised concerns with similar proposals to limit the imbalance band. The current system of calling either High or Low Operational Flow Orders to limit line pack or draft in the direction of an imbalance problem is far more effective than an arbitrary narrow band.
 - SMUD believes that flexible gas generation is critical to balancing intermittent low carbon resources. Any attempt to make gas generation less flexible by imposing arbitrary daily forced balancing thresholds, as in the proposal, would tend to make low carbon resources less attractive, and may in fact lead to an *increased* need for bulk storage – the opposite of the benefit claimed by the proposal.

- Moving to a statewide market structure to address a specific problem within the Southern California market ignores the profound differences between Northern and Southern California gas infrastructure and gas operations. Southern California has four gas storage fields, and Aliso Canyon was by far the largest, with almost two thirds of total Southern California storage capacity prior to the leak and subsequent shutdown and capacity curtailment. In contrast, Northern California currently has eight gas storage fields (two of the smallest are owned by PG&E and may be decommissioned) with the largest field currently accounting for about one third of total Northern California storage capacity. Southern California had most of their eggs in one basket, and that basket failed. Northern California has a much more geographically and operationally diverse portfolio of storage. Indeed, a solution addressing the conditions in Southern California could create negative consequences under certain conditions in Northern California and vice versa.
- Gas flows do not appear to be easy or appropriate candidates for an imbalance market in the same manner as electricity. An imbalance market for electric power is effective because the transfer of power is instantaneous. For example, excess renewable generation in Oregon can instantly serve load in California, as the electric supply moves at the speed of light. In contrast, natural gas in transmission pipelines moves at about 15 miles an hour. Geographically broad imbalance markets in the natural gas pipeline space simply do not provide the same benefits as do imbalance markets on an interconnected electric grid.
- The proposal envisions going to a 24 hour balancing market. SMUD does not believe that this is necessary, and notes that such a structure would require significant staffing adjustments at substantial cost that will ultimately be reflected in electric service costs.

Thank you again for the opportunity to comment.

/s/

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