DOCKETED	
Docket Number:	18-IEPR-03
Project Title:	Southern California Energy Reliability
TN #:	226380
Document Title:	San Diego Gas & Electric Comments SDG&E Response to Gas Price Questions
Description:	N/A
Filer:	System
Organization:	San Diego Gas & Electric
Submitter Role:	Public
Submission Date:	1/25/2019 11:51:21 AM
Docketed Date:	1/25/2019

Comment Received From: San Diego Gas & Electric
Submitted On: 1/25/2019
Docket Number: 18-IEPR-03

SDG&E Response to Gas Price Questions

Additional submitted attachment is included below.

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January 25, 2019

California Energy Commission
Dockets Office, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512

Dear Chairman Weisenmiller and Commissioners:

San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to submit comments in response to the California Energy Commission's (CEC) 2019 Integrated Energy Policy Report (IEPR) Joint Agency Workshop on the Southern California Natural Gas Prices held on January 11, 2019. During the course of the public workshop, SDG&E was asked two questions for further clarification: (1) what are the direct costs of Operation Flow Orders (OFOs) on your procurement; and (2) what effect have high gas prices had on SDG&E's 2018 Energy Resource Recovery Account (ERRA), which is SDG&E's mechanism established by the California Public Utilities Commission (CPUC) for tracking and recovering its procurement-related expenses in annual CPUC proceedings.

SDG&E responds, below, to each of these questions, mindful that Mr. Simon Baker, Deputy Director of the CPUC's Energy Division, advised participants that they are not required to provide commercially sensitive and otherwise confidential information. Further, SDG&E understands that these comments will be submitted to the CEC's public docket. Accordingly, the information provided herein falls within these parameters.

First, the workshop's panel was asked about the direct impact that the Operating Flow Orders (OFOs) have on SDG&E's procurement costs in 2018. SDG&E works very hard to avoid being assessed penalties associated with OFOs and is generally successful in doing so by either buying or selling natural gas through the spot market or the imbalance market to get within allowable tolerance levels. In 2018, there were 12 instances in which OFO charges were assessed on SDG&E with only an impact of 0.12% to SDG&E's 2018 total fuel costs. While the direct costs of the OFOs were insignificant, the real impact of the OFOs was their effect on market gas prices, which in turn affected electricity prices.

The effect on electricity prices can be understood with the second question pertaining to the impact of high gas prices on SDG&E's ERRA account. SDG&E's 2018 gas costs for generation fuel were 26% higher than the original ERRA forecast. The higher gas prices caused market prices for electricity to rise sharply, which resulted in power costs paid to the CAISO for SDG&E customer demand that were 58% higher than anticipated. This price impact was partially offset by a 25% increase in SDG&E's generation supply revenue. On a net basis, when assessing the overall effect of higher gas prices on SDG&E ERRA, costs increased 112% over our 2018 forecasted amounts. While the increased gas costs did increase the balance in SDG&E's ERRA account, it was not so large as to be outside of the forecasted range that would cause an ERRA "trigger," necessitating a mid-cycle review by the CPUC of SDG&E's procurement costs.

Thank you for the opportunity to provide these comments.

Sincerely,

/s/ Kendall Helm
Vice President – Energy Supply
San Diego Gas & Electric