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*Comment Received From: Catherine Hackney*  
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**SCE Comments on Southern California NG Prices\_FNL**

*Additional submitted attachment is included below.*

January 25, 2019

California Energy Commission  
Docket Office, MS-4  
Re: Docket No. 18-IEPR-03  
1516 Ninth Street  
Sacramento, CA 95814-5512  
docket@energy.ca.gov

Re: Southern California Edison Company's Comments on the California Energy Commission Docket No. 18-IEPR-03: Southern California Natural Gas Prices

Dear Commissioners:

On January 11, 2019, the California Energy Commission (CEC) and the California Public Utilities Commission (CPUC) held a Joint Agency workshop ("workshop") on Southern California natural gas prices, the impacts to core and noncore customers, and potential mitigation measures to reduce high natural gas prices and associated power prices as part of the 2018 Integrated Energy Policy Report (IEPR) proceeding. Southern California Edison Company (SCE) participated in the workshop and appreciates the ability to provide these comments.

Continued operational challenges in Southern California Gas' (SoCalGas) pipelines are impacting gas and electric system deliverability, resulting in increased natural gas and power costs to customers. SCE appreciates the Joint Agencies' efforts to improve gas and electric system reliability and costs in Southern California and encourages the Joint Agencies to continue exploring how best to ensure the safe return to service of the pipelines currently unavailable due to maintenance or inspection outages on SoCalGas' system. Further, discrepancies between the gas and CAISO markets, on-going SoCalGas backbone pipeline constraints, and limited Aliso Canyon storage capability are contributing to historic differences in gas pricing between SoCal Border and Citygate. To address these challenges, SCE recommends the following to reduce adverse recent gas price impacts on customers and improve gas and electric system reliability.

**I. Implement a temporary cap of the application of Operational Flow Order Stage 4 and 5 penalty events at the \$5/dth level**

The current Operational Flow Order (OFO) penalty price structure accounts for much of the significant increases seen in SoCalGas Citygate and CAISO wholesale power prices, while failing to provide a meaningful increase in gas and electric system reliability. The SoCalGas OFO system balancing rules give shippers an economic incentive to ensure that their scheduled deliveries match their demand within a prescribed tolerance level. The current Stage 4 and Stage

5 OFO structure (with a \$25/dth commodity penalty component) assumes noncore customers have enough gas supply flexibility to bring daily gas deliveries into balance with daily demand. This assumption may not hold true, however, when ongoing pipeline constraints and outages on SoCalGas' system, combined with restricted operations at SoCalGas' Aliso Canyon energy storage field, limit the ability of noncore shippers to bring their daily gas deliveries into balance with their daily gas demand.

SCE and Southern California Generation Coalition filed a Joint Petition for Modification (PFM)<sup>1</sup> in August 2018 seeking expedited action by the CPUC to ameliorate the spikes in SoCalGas Citygate gas prices due to the OFO penalty price structure. As explained in the PFM, reducing temporarily the OFO Stage 4 and 5 penalty events from a \$25/dth component to the \$5/dth level would help relieve some of pressures contributing to the spikes in natural gas costs without removing the economic incentive to align gas deliveries with demand. To ensure that such an action does not have an unintended operational impact, SCE recommends that the Commission require SoCalGas to provide monthly reports on the impact to which a temporary reduction in Stage 4 and 5 OFO penalty amounts, and immediately petition the Commission if it finds that the temporary reduction in OFO penalty amounts is causing shippers to collectively act in a manner that is undermining gas system reliability.

## **II. Adopt a requirement for Core to balance to actual demand**

SCE recommends that the CPUC adopt a requirement for core customers to balance to actual demand or estimated actual demand. Core customers currently balance to a forecast, regardless of actual demand. Noncore customers must balance to actual demand. Requiring greater accountability in core balancing will materially ease the strain on the SoCalGas system, by reducing the risk and severity of curtailment to noncore electric generators or costly efforts to avoid curtailments (such as higher-stage OFOs). Both core and noncore customers should have the responsibility to balance to actual usage to support balancing the system, particularly since the core can represent more than half the gas demand on many days. Additionally, requiring the core to have equivalent balancing requirements with the noncore will have no impact on the core's highest physical service priority during a reliability event, and could reduce the severity of such an event. The CPUC currently has an open proceeding regarding the feasibility of incorporating advanced meter data into the core balancing process.<sup>2</sup>

## **III. Temporarily suspend the backbone priority capacity allocation system and revert to pro-rata allocations to shift commodity pricing to more liquid SoCal Border trading points**

The current backbone priority capacity allocation system assumes there is sufficient pipeline capacity available for shippers to transport gas supplies across SoCalGas' system to meet gas demand at SoCalGas Citygate. The backbone gas transportation is constrained, however, resulting in a lack of slack capacity that translates into higher Citygate prices because entities with

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<sup>1</sup> SCE and SCGC Joint Petition for Modification of Decisions 15-06-004 and 16-06-039, as modified by D.16-12-016, issued in A.14-06-021 and 14-12-017, respectively.

<sup>2</sup> Application 17-10-002

Backbone Transportation Service (BTS) holdings are able to set gas prices during high demand periods and/or Low OFO stage days.

By temporarily suspending the backbone priority capacity allocation system, all shippers will have the ability to source gas supplies at border receipt points and have a pro-rata allocation of pipeline capacity to meet gas demands until sufficient slack capacity returns to the SoCalGas system. This temporary measure would operate similar to SoCalGas' previous scheduling practices prior to the implementation of backbone transportation rights. Specifically, receipt point capacity would be allocated to all shippers based on confirmed nominations. Pro rata allocation would be used in the event that confirmed nominations at a specific receipt point or path exceeds the capacity at that point or path, temporarily treating all shippers equally. This temporary measure would have the immediate effect of lowering overall gas and electric system costs. Moving the pricing point from the Citygate to the Border will shift pricing to points where there is competition from shippers other than SoCalGas holders of constrained backbone pipeline capacity, thereby eliminating the pricing premium being charged by BTS holders. This would also bring Southern California gas costs more in line with Northern California.

#### **IV. Net out daily imbalances against any monthly OFO penalties when the daily imbalance supported gas system reliability**

The gas system requires shippers to maintain gas supplies and gas demand within tight tolerances when SoCalGas declares an OFO. To the extent that a shipper is supporting gas system conditions during an OFO, Emergency Flow Order (EFO) or gas curtailment event, the shippers' support of the system should be considered when calculating the monthly imbalance charge. Specifically, when a shippers gas deliveries provide a positive contribution to system operations, the positive contribution should not be subject to monthly imbalance penalties.

Daily imbalances are managed by calling OFOs, EFOs, or gas curtailment. During a high OFO, shippers are typically provided with an allowable over-delivery percentage and associated charge for any violation. During a low OFO, EFO, or gas curtailment, shippers are typically provided with an allowable under-delivery percentage and associated charge for any violation. Additionally, shippers' gas deliveries must be within +/- 8% of gas usage during the month and include imbalances accrued from previous months.

A shipper should not be put at financial risk by under-delivering gas when the SoCalGas' system is forecasted to be over pressurized (e.g., high OFO) or over-delivering gas when the SoCalGas's system is forecasted to be under pressurized (e.g., low OFO). SoCalGas should review the gas positions of shippers on those OFO days and net out the support provided during daily OFO events from the monthly 8% imbalance tolerance calculation. In calculating the monthly imbalance charge, the net monthly imbalance would be the actual imbalance minus any positive support that the shipper provided during a daily OFO event. Specifically, any gas that is under-delivered by a shipper during a high OFO day should be applied as an offset to any potential monthly shortfall beyond the -8% monthly balance tolerance. Similarly, the opposite would apply in the case of a low OFO day.

## **V. Develop a full requirements, cost-based, natural gas supply procurement tariff for CAISO-connected Electric Generation**

California's approach to reducing greenhouse gas (GHG) emissions is in part based on reducing reliance on natural gas-fueled electric generation (EG). As the use of natural gas-fueled electric generation to support electric system reliability diminishes, however, there will be a corresponding increase in daily gas burn volatility for electric generation. If the CPUC were to implement a cost-based tariff, SoCalGas would be given the ability to optimally plan its daily pipeline and storage operations to serve the collective demand of CAISO-connected EG and have a mechanism to clearly establish the cost of gas for EG. Such a tariff mechanism would enable SoCalGas and the CAISO to collaborate to provide a more accurate aggregate system electric generation gas demand than individual generators can provide. The existence of a cost-based tariff would also eliminate the need for CAISO-connected EG to account for the potential exposure of OFO gas penalties in their bids to CAISO, which will lead to lower power prices for the benefit of all electric consumers. Lower electric prices will also enable greater electrification, further enhancing California's decarbonization objectives.

## **VI. Additional considerations in the 2019 IEPR natural gas price forecasting**

SCE encourages the CEC and stakeholders to begin reflecting on how to perform the natural gas price forecast update as part of this year's IEPR cycle. As provided in this proceeding, the gas prices observed since October 2017 reflect extenuating circumstances related to dramatic gas system outages. Thus, historic gas price data used for forecasting can have an upward bias.

The State should not necessarily expect high gas prices to persist if the Commission resolves the underlying SoCalGas system and service conditions. When the proceeding is prepared to update the gas price forecast, SCE would like to work with CEC staff to support normalizing the price analysis so that the extreme conditions will not be assumed to continue in long-term price outlooks. Due to the impact of observed prices on long-term forecasts, the CEC's action is not only critical to cost reductions for 2019 but will also inform the State's long-term, clean energy outlook by impacting other proceedings such as the Integrated Resource Plan.

## **Conclusion**

SCE appreciates the Joint Agencies' consideration of the comments above and looks forward to continuing its collaboration with the CEC and CPUC. Please do not hesitate to contact me at (916) 441-3979 with any questions or concerns you may have. I am available to discuss these matters further at your convenience.

Very truly yours,

/s/

Catherine Hackney