

DOCKETED

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June 3, 2021

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Commissioner Andrew McAllister
California Energy Commission
1516 9th Street
Sacramento, CA 95814

**RE: CEC Docket 21-IEPR-05;
Comments by the Indicated Shippers on the May 20, 2021 Workshop on
Natural Gas Infrastructure**

Dear Commissioner McAllister and Commission Staff:

The Indicated Shippers¹ appreciate this opportunity to comment on the May 20, 2021 workshop (the Workshop) on Natural Gas Infrastructure. Specifically, the 2021 Integrated Energy Policy Report (2021 IEPR) should consider the following two points:

- The distinctions between near-term planning and near-term operational needs, and longer-term planning and longer-term operational needs. Critically, the ability for natural gas storage fields (specifically including Aliso Canyon) to improve near-term reliability, especially during the summer 2021 and winter 2021-22 seasons, must be recognized. Underground storage fields such as Aliso Canyon should be strategically, reasonably, and responsibly used in the near term to improve and help assure reliable, affordable service for California customers. Reasonable, safe use of Aliso Canyon in the near term to assure reliability and mitigate against the risk of price spikes (of both electric and natural gas) does not equate to permanent future use of the storage field and natural gas; and
- The importance of assessments and modeling numbers for natural gas demand to include accurate historical usage and forecasted peak-hour demands.

¹ The Indicated Shippers represent the following companies in this proceeding: Aera Energy LLC, California Resources Corporation, Chevron U.S.A. Inc., ConocoPhillips, PBF Holding Company, Phillips 66 Company, and Tesoro Refining & Marketing Company LLC.

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During the Workshop, Commissioner Gunda described the current phase as an “ideation phase.” In this ideation phase, the Indicated Shippers urge the California Energy Commission (CEC) to consider the above points in preparing its assessment and analysis. The Indicated Shippers represent the interests of large natural gas end-users, producers, and marketers with operations in Southern California. The Indicated Shippers have a strong interest, shared by a wide array of stakeholders, in maintaining supply reliability and minimizing price spikes and volatility in the Southern California natural gas and electricity markets.

In drafting the 2021 IEPR, the CEC should first consider the critical impacts of natural gas underground storage, and specifically the Aliso Canyon storage field, on near-term reliability in California. In its presentation at the Workshop on the CPUC docket Investigation (I.) 17-02-002 (Aliso Canyon Investigation), the CPUC clearly expressed that Aliso Canyon cannot yet be eliminated without jeopardizing gas and electric reliability, as well as reasonable customer rates.² This has been further emphasized in a 2018 WECC study that was presented by Wood MacKenzie in a summer 2020 workshop, as part of the CPUC’s Natural Gas Rulemaking docket, Rulemaking (R.) 20-01-007. The 2018 WECC Gas-Electric Interface Study showed that Aliso Canyon acts as a critical resource for managing load variability and disruptions in Southern California. Further, limitations on Aliso Canyon have ripple effects on neighboring regions across the western United States.³ Aliso Canyon helps mitigate N-1 scenarios from outages and disruptions in the gas transmission system, with N-1 referring to the failure of a large system component.⁴

A top priority should be consideration of system interdependencies and overall energy grid resilience. As Texas, Oklahoma, and other states experienced with the February 2021 winter storm Uri, black swan events do occur. They can impose significant human life and financial costs when interdependent parts of the overall energy system are subject to exogenous events. It is highly possible, and indeed probable, that more extreme weather events will occur this summer, and in future years. It is also prudent to consider non-weather related events, such as the role natural gas and natural gas storage may play in an Electro-Magnetic Pulse (EMP) event scenario.

² Presentation materials by the CPUC on Aliso Canyon Order Instituting Investigation on the May 20, 2021 workshop, on slide 3.

³ Track 1B PowerPoint Presentation Materials: Market Structure and Regulations, July 21, 2020, in the CPUC’s docket R.20-01-007, at slides 12-13 (Wood Mackenzie & E3/Eyberg and Olson), available at <https://www.cpuc.ca.gov/gasplanningoir/> (available on the link “Workshop Slides” under the section “July 21, 2020, 9:30 a.m. - 4:30 p.m.: Track 1B Workshop - Market Structure and Regulations”).

⁴ Id.

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In the Workshop presentation, “Overview of California Gas Issues & Analysis,” the CEC noted its goal of considering short-term needs for natural gas.⁵ In conducting this evaluation, the CEC should coordinate its analysis with the analysis of Aliso Canyon being undertaken in the Aliso Canyon Investigation. While the *2021 IEPR Final Scoping Order* (Scoping Order) expressly states that the “CEC will also collaborate with the CPUC on their Long-Term Gas Planning Rulemaking and develop necessary assessments,” it does not include the Aliso Canyon Investigation. As the Aliso Canyon Investigation involves comprehensive modeling efforts to assess various scenarios of reducing or eliminating the storage field, I. 17-02-002 should be expressly included for coordination purposes.

In light of the strong concerns over gas system reliability for winter 2021-22, the Indicated Shippers submitted a petition for modification⁶ on May 26, 2021 in the Aliso Canyon Investigation, seeking an increase of the interim maximum capacity of Aliso Canyon. Time is of the essence, given SoCalGas’s limited injection season. Additional operational risks associated with the storage constraints are presented in SoCalGas’s April 1, 2021 summer technical assessment; this assessment suggests that the SoCalGas system is balancing on a tightrope due to the current 34 Bcf maximum inventory requirement, leading to severe risks for the upcoming 2021-22 season. The 2021 IEPR should take note of the impacts of storage constraints in its assessments of energy reliability over the next five years, particularly for Southern California.

Reliability is not only a concern for the gas system in California. A May 2021 report from the North American Electric Reliability Corporation (NERC) finds that California is the only region in the country at “high risk” for electricity supply problems this summer.⁷ The report states that “WECC-California is at risk of energy emergencies during periods of normal peak summer demand and high risk when above-normal demand is widespread in the west.”⁸

Relatedly, it is important for the 2021 IEPR to reflect accurate assessments of natural gas demand, including peak hourly demands. If not informed by accurate and realistic modeling, policy decisions risk not only reliability, but potentially wasted ratepayer dollars, on new resource additions that may not provide the required deliverability. California ratepayers have funded the operations and maintenance of assets such as Aliso Canyon; these existing assets should be used in a safe and reasonable manner to optimize the gas grid. In order to be considered prudent, planned obsolescence of existing systems needs to be paired with policies that minimize stranded costs.

⁵ Presentation by CEC titled “Overview on California Gas Issues & Analysis” during the May 20, 2021 workshop in the instant docket.

⁶ *Petition for Modification of D.20-11-044 by the Indicated Shippers*, May 26, 2021, submitted in docket I.17-02-002, available here: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M385/K736/385736306.PDF>.

⁷ *2021 Summer Reliability Assessment*, published by the North American Electric Reliability Corporation (NERC) at page 4, available here: <https://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC%20SRA%202021.pdf>.

⁸ *Id.* at 4.

In addition, the Indicated Shippers support the Scoping Order's express inclusion of the potential future use of renewable gas, hydrogen and other zero-carbon alternatives in the existing and extensive natural gas system in California. Furthermore, including Carbon Capture & Sequestration as part of the solution set will drive increasing cost effectiveness as technologies mature. The Scoping Order states:

This will include exploring the role of renewable gas, hydrogen, and other zero-carbon alternatives such as engineered carbon removal (ECR) in a low carbon future, to replace and/or complement the use of fossil gas with focus on: identification of the most suitable applications; availability and pricing; and opportunities to repurpose existing infrastructure to integrate the usage of renewable gas, hydrogen, and ECR.⁹

California customers have spent millions of dollars investing and maintaining the natural gas infrastructure; but this is not merely a "sunk cost effect" argument. Rather, natural gas resources and existing infrastructure can be cheaper for customers in the near- to mid-term than electricity resources and new electricity infrastructure.¹⁰ Critically, the natural gas system can provide important reliability benefits during wildfires and extreme weather events. With the usage of underground storage facilities such as the Aliso Canyon storage field, natural gas remains a cost-effective resource for customers in the near to mid-term.

Finally, the 2021 IEPR should consider the rate impacts faced by California customers in this ideation phase. Notably, the direct link between elevated customer costs and the availability of the Aliso Canyon storage field has been proven time and again.¹¹ The CPUC presented the Aliso Canyon Phase 2 modeling results showing extreme ratepayer impacts, including:

⁹ Scoping Order at PDF pages 9-10.

¹⁰ Track 1B PowerPoint Presentation Materials: Market Structure and Regulations, July 21, 2020, in the CPUC's docket R.20-01-007, at slides 72 and 87 (California Council on Science & Technology (CCST)/Long), available at <https://www.cpuc.ca.gov/gasplanningoir/> (available on the link "Workshop Slides" under the section "July 21, 2020, 9:30 a.m. - 4:30 p.m.: Track 1B Workshop - Market Structure and Regulations"). A seminal 2018 CCST study concluded that "California's energy system currently needs natural gas and underground storage to run reliably" and that "[r]eplacing UGS [underground gas storage] would be very expensive and nearly possibility in the near term."

¹¹ See, Track 1A PowerPoint Presentation Materials: Market Structure and Regulations, July 7, 2020, in the CPUC's docket R.20-01-007, at slides 134 and 140 (Indicated Shippers/Southern California Generation Coalition/Yap), available at <https://www.cpuc.ca.gov/gasplanningoir/> (available on the link "Workshop Slides" under the section "July 7, 2020, 9:30 a.m. - 4:15 p.m.: Track 1A Workshop - Natural Gas Reliability Standards." Slide 134 contains an analysis of the differences between market reactions in northern and southern California during the summer of 2018, when demand exceeded flowing supplies. It shows a significantly higher price differential between the SoCalGas Citygate and SoCalGas border compared to the PG&E Citygate and PG&E Malin delivery point. In their joint presentation, the Indicated Shippers and Southern California Generation Coalition concluded that the stark difference was caused by the fact that SoCalGas had significant constraints on storage

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- ❖ Total impact of the loss of Aliso Canyon on SoCalGas core customers averaged \$102 million/year from 2016-2018.
- ❖ Electric customers paid \$961 million in excess power costs in 2018.¹²

The Indicated Shippers support the CEC's creation of a Natural Gas Track in the instant IEPR proceeding. The interdependencies of the electric and gas system are clear, and the gas policy and planning research being undertaken in this 2021 IEPR is needed to help inform California's policy goals and implementation.

Respectfully submitted,

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A Professional Corporation



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Counsel for the Indicated Shippers

availability, where PG&E had multiple storage fields on its system with unconstrained access. On slide 140, SCGC displays an excerpt from the CAISO 2018 Market Monitoring Report, showing that gas costs in SoCalGas's service territory directly set electricity prices. *See also*, Presentation titled, "Southern California Natural Gas Supply by the Indicated Shippers during the January 11, 2019 Joint Agency Workshop on Southern California Natural Gas Prices in the CEC's docket 18-IEPR-03 (Southern California Energy Reliability), slide 3 (showing extreme SoCalGas Citygate to the SoCalGas border price differential from October 2017–December 2018 correlated with infrastructure constraints).

¹² Presentation materials by the CPUC on Aliso Canyon Order Instituting Investigation on the May 20, 2021 workshop, on slide 4.