

INDEPENDENT ENERGY PRODUCERS

January 25, 2019

**Comments of the Independent Energy Producers Association (IEP)
On the Joint Agency Workshop
On Southern California Natural Gas Prices**

The Independent Energy Producers Association (IEP) is pleased to comment on the Joint Agency Workshop on Southern California Natural Gas Prices (Workshop) convened on January 11, 2019.¹ As noted in the Notice for the Workshop, southern California continues to face reliability challenges to its electricity and natural gas energy systems primarily due to continuing outages and reduced capacity on key natural gas transmission pipelines. The reduced capacity contributes to a reduction in wholesale natural gas supply and can influence natural gas prices. The issue of price anomalies in the natural gas sector, which affect price outcomes in wholesale electricity markets, is of concern to the joint agencies monitoring gas prices and responsible for protecting California consumers.

During the Workshop, participants identified two critical factors fostering price volatility and reliability concerns in the gas market. The first critical factor is the inadequate investment in gas transmission pipeline infrastructure and storage over the past few years needed to fix known gas supply constraints and, thereby minimize the risk of gas supply shortages to electric generators. The second key factor is the current mis-alignment of the natural gas trading markets and the CAISO Day-Ahead electricity wholesale markets. These two factors, inadequate gas infrastructure investment and mis-match of gas trading markets and electricity wholesale trading

¹ Jan Smutny-Jones, Chief Executive Officer of IEP, participated in the Workshop and his comments and presentation are incorporated herein by reference.

markets, foster higher than average wholesale natural gas prices in Southern California which, in turn, foster higher than average wholesale energy prices. Fixing these problems will go a long way to relieve OFO conditions by enabling better manage the gas supply system. Below, IEP addresses these critical factors affecting natural gas and electricity wholesale markets.

First, the current problem of inadequate natural gas infrastructure is not new. The problem has persisted since at least 2016. For example, the Aliso Canyon event started on October 23, 2015; the leak was capped on February 11, 2016; and, gas supply storage has been constrained ever since. Moreover, in addition to known gas transportation and storage constraints, the southern California gas system since 2016 has been hampered by operational and/or maintenance issues on the gas transmission/delivery system. SoCalGas receipt point capacity has been reduced by 770 MMcfd due to the operational status of Lines 235, 3000, and 4,000 that affect natural gas transmission and delivery to electric generators.² Not surprisingly, natural gas supply constraints, both with regards to gas transportation and gas storage, foster higher prices and greater price volatility in natural gas markets and associated wholesale energy markets.

Second, following the Aliso Canyon event, the relatively higher incidence of “low” Operational Flow Orders (OFOs) contributes to the relatively high gas prices and associated price volatility that occurs. SoCalGas reports that stored natural gas today is 33.5 Bcf , i.e. 16% less than the supply of stored natural gas available in 2018 (39.7) due to colder weather and the fact that less natural gas is available in the non-Aliso storage fields.³ The lower supply of natural gas to non-core customers increases the amount of OFOs faced by non-core customers including electric generators. Addressing the infrastructure problems – both transportation and

² See Presentation of California Public Utilities Commission and California Energy Commission, p. 4

³ See Presentation of SoCalGas, January 11, 2019, “Recent Winter Event,” p. 3

storage – will bring about the greatest, longest-lasting reduction in the number of OFOs and their resulting price impacts.

Third, the problem of inadequate gas transmission and storage infrastructure is compounded by the fact that electric generators fueled by natural gas do not know what their CAISO market awards will be when the most liquid “next-day” trading cycle ends.⁴ As a result, when an OFO is declared, the same-day price will include the OFO penalty level which tends to exceed the CAISO-imposed cap on bids from electric generators fueled by natural gas.⁵ The disconnect between prices paid by electric generators fueled by natural gas and compensation paid by the CAISO is a significant problem that needs to be addressed as soon as possible. However, interim changes suggested at the Workshop by Southern California Edison Company (SCE) should be carefully assessed to ensure market conditions are not negatively impacted. For example, reducing OFO penalties in key circumstance may negatively impact SoCal Gas’s ability to manage an OFO event.

In summary, product scarcity fosters volatility and drives prices higher. The relatively high price of natural gas and high volatility manifest today in southern California today is not surprising, given the natural gas transmission line outages over the past few years and the reduction in in-basin storage capacity. What is surprising is that the conditions that that have led to the relatively higher and more volatile pricing in the natural gas markets have not been fixed to steady the prices in the natural gas *and* electricity markets. The interim fixes suggested by some simply shift the costs of inadequate infrastructure investment in the natural gas sector to the whole electricity markets, which is inappropriate as it simply perpetuates the problem rather than provide a long-term solution. What is needed are timely fixes to restore the gas transportation and supply system at least to the level that existed prior to 2016. Additionally,

⁴ Presentation of SoCalGas, January 11, 2019, “Recent Winter Event,” p. 3

⁵ Presentation of SoCalGas, January 11, 2019, “Recent Winter Event,” p. 3

what is needed is better alignment of gas trading markets and the Day-Ahead CAISO clearing timeline. Together, these fixes will go a long way to help mitigate the current circumstances.

The current circumstance is untenable, and permanent, long-term solutions are needed as soon as possible. Accordingly, the Joint Agencies should investigate (a) why the investment in natural gas transportation and storage infrastructure known to be needed since 2016 remains stalled; (b) why the CAISO has not adjusted its market design to protect against wholesale electricity market disruptions and price volatility; and (c) what steps need to be taken that have not been taken to address these problems.

Respectively submitted this 25th day of January 25, 2019.

A handwritten signature in black ink that reads "Steven Kelly". The signature is written in a cursive style with a large, sweeping flourish at the end of the name.

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