



55 Second Street
Suite 1700
San Francisco, CA 94105
415.227.0900 Phone
415.227.0770 Fax

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415.227.3563 Direct
ekahl@buchalter.com

VIA E-MAIL (ALISOCANYON0II@CPUC.CA.GOV)

Commission Staff
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Indicated Shippers' Comments on Aliso Canyon OII (I.17.02-002) November 13, 2019 Technical Workshop #2 - Econometric Modeling Results and Modeling Updates

Dear Commission Staff:

The Indicated Shippers¹ appreciate the opportunity to offer comments on the Commission's November 13, 2019, Technical Workshop and Modeling Update (Workshop) regarding the future of Aliso Canyon. Senate Bill (SB) 380 requires the Commission to determine the "feasibility of minimizing or eliminating the use of the Aliso Canyon natural gas storage facility located in the County of Los Angeles while still maintaining energy and electric reliability for the region."² Energy Division staff (Staff) is making solid progress to inform that determination by examining the economic implications of Aliso Canyon to customers in both the natural gas and electricity sectors and the facility's role in ensuring reliability in both sectors.

Indicated Shippers offer these comments to highlight two issues that must remain at the forefront as the Staff's work continues:

- ✓ The economic model results underestimate the risk and costs that electricity and natural gas customers could face if Aliso Canyon were decommissioned, although the benefits of additional modeling are not clear.

¹ The Indicated Shippers include, for the purpose of this proceeding, California Resources Corp.; Chevron U.S.A., Inc.; PBF Holding Company; Phillips 66 Company; and Tesoro Refining & Marketing Company, LLC.

² CAL. PUB. UTIL. CODE §714.

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- ✓ The hydraulic model must examine the system with sufficient granularity to fully understand the impact on pipeline pressure in the Los Angeles Basin (LA Basin), particularly in light of substantial uncertainty surrounding electricity sector reliability.

In light of the unavoidable uncertainty of economic and reliability outcomes, Staff's results must be presented in a manner that allows policymakers and the public to gauge the level of uncertainty surrounding those results. Given the high stakes associated with energy costs and reliability, California cannot afford to be wrong in its response to SB 380 as a result of analytical uncertainty.

1. Economic Model Results Underestimate the Rate Impacts of Decommissioning Aliso Canyon

a. Electricity Rate Impacts Are Uncertain

Staff has examined the economic implications of Aliso Canyon from two perspectives: electric rate impacts and core customer natural gas rate impacts. It has examined electric rate impacts through production cost modeling (PCM), requiring a prediction of the natural gas supply that will be required to operate gas-fired electric generation (EG).³ It has examined core customer gas cost arising from volatility through a “difference in differences” (DID) analysis, comparing the changes in customer bills over time in 26 zip code areas where the SoCalGas and PG&E service areas overlap.⁴ While Staff has made a reasonable effort at estimating rate impacts, neither of these studies provides a high degree of certainty, and one element of potential rate impact is missing.

The PCM analysis driving the electricity rate impact analysis is rooted in the Commission's Integrated Resource Planning (IRP) proceeding, R.16-02-007, which lends little certainty to the outcome for purposes of this proceeding. Staff's analysis assesses “cost or reliability effects of closing or minimizing the use of the Aliso Canyon storage field in near term and long-term study years (2020, 2025, and 2030).”⁵ Tied to the IRP, the analysis must look to the Staff's proposed Reference System Plan (RSP) and power flow studies from the CAISO and LADWP to examine local constraints.

While this analysis may be the best Staff can do, given the available tools at this time, it leaves a high level of uncertainty in outcomes. The uncertainty arises from a range of factors,

³ *Technical Workshop #2 – Aliso OII I.17-02-002, Final Econometric Modeling, Hydraulic Modeling Updates and PCAM Updates*, November 13, 2019 (Intro/PCM Slides) at 8.

⁴ *Volatility & Difference-in-Differences Analyses*, November 13, 2019, at 4.

⁵ Intro/PCM slides at 12.

including the following:

- Results are naturally influenced by the planning horizon; the farther out the planning target (e.g., 2030), the less certainty can be expected in the results. Indeed, the Commission's recent unexpected order requiring incremental procurement of system resource adequacy (RA), D.19-11-016, demonstrates that the 2017-2018 IRP cycle failed to assess needs in the 2021-2023 timeframe. The end result was to *increase* the gas-fired generation that needs to be retained.
- The Commission recently de-valued certain renewable technologies in D.19-06-026, lowering their effective load carrying capability (ELCC);⁶ the value will be further drawn into question as the Commission explores the CAISO's concerns regarding the value of solar generation for reliability as the peak advances in the day and in light of needs in post-peak hours.⁷ In light of these events, modeling the need for gas-fired generation for purposes of the SB 380 determination presents material uncertainty.
- As the state pursues its greenhouse gas (GHG) reduction goals, integrating technologies unproven as reliability tools at scale, the magnitude and duration of the state's need for gas-fired resources is unclear. Thus, while Staff can model scenarios, uncertainty will remain until the viability of storage resources at scale to replace gas-fired resources is proven.
- The RPS "plugs" 2,000 MW of "generic effective capacity" into the SERVIM simulations to achieve the desired level of reliability for the 46 MMT GHG scenario likely to be pegged as the RSP.⁸ This presents the risk that the IRP modeling will simply assume away needed gas-fired resources in the RSP.

The Indicated Shippers' comments are not intended to criticize Staff's efforts, here or in the IRP proceeding. They are intended to highlight, however, the uncertainty of the rate impact analysis arising from Staff's PCM analysis to determine electricity sector rate impacts. The level of uncertainty must be transparent and openly acknowledged.

b. Core Gas Rate Impacts Are Uncertain

Staff has assessed the potential rate impacts on core customers of volatility arising from the reduced availability or elimination of Aliso Canyon. It addressed this impact looking at a treatment group and a control group in zip codes where the PG&E and SoCalGas service

⁶ D.19-06-026, Ordering Paragraph 19, at 64.

⁷ D.19-06-026, Conclusion of Law 18 at 64.

⁸ R.16-02-007, *Administrative Law Judge's Ruling Seeking Comment on Proposed Reference System Portfolio and Related Policy Actions*, November 6, 2019, at 17.

territories overlap. While the reasoning for Staff's approach is understandable, it is unclear whether this approach estimates potential impacts with a reasonable degree of accuracy.

As a preliminary matter, the scope of the sample is geographically limited and may not fully reflect impacts across the service territory. In addition, it is unclear how the analysis fully eliminated the risk that the commodity costs in the PG&E service territory may have been affected by events in the SoCalGas service territory or other unique events. Consequently, the uncertainty associated with these outputs must be addressed and taken into account in using them to make the SB 380 determination.

c. Noncore Gas Cost Impacts Are Not Addressed

The Indicated Shippers raised the need to examine noncore gas rate impacts in Workshop #1. In further discussions with Staff, however, the challenge of developing an informed analysis became clear. While a quantitative assessment may be difficult, particularly given the lack of Commission jurisdiction over noncore commodity purchases, it is inconceivable that noncore customers as a class were unaffected by the significant price volatility in 2018. Consequently, noncore gas cost impacts should not be assumed to be zero, but should be viewed as uncertain. The Indicated Shippers recommend, however, that the Commission consider noncore cost impacts through sensitivity analyses to inform the Commission's SB 380 determination.

2. The Hydraulic Model Will Necessarily Assess Risks in the LA Basin through the Lens of the Uncertainty Surrounding Electricity Sector Reliability

The Indicated Shippers are very concerned about the impacts of removing Aliso Canyon from service on the line pressure in the LA Basin, since members have significant, sensitive gas loads in the area. Failing fully to grasp the potential implications of removing the facility from use could have impacts not only on sensitive residential and commercial loads in the LA Basin, but could result in operational and safety risks for some of the state's biggest industrial operations.

The Staff indicated that hydraulic modeling would draw its gas-fired EG demand profiles from the PCM outputs.⁹ For the same reasons discussed in Section 1.a above, the output of a hydraulic model based on these inputs will have a high degree of uncertainty, and assessing sensitivity of the results to differing levels and timing of EG gas demand will be critical. The degree of uncertainty needs to be made transparent to the Commission in interpreting the Staff's analysis in rendering its SB 380 determination.

⁹ Intro/PCM Slides at 12.

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The Indicated Shippers appreciate the opportunity to gain an understanding of Staff's process and encourage Staff to make transparent the level of uncertainty associated with the analysis it has undertaken in informing the Commission's SB 380 determination.

Very truly yours,

A handwritten signature in blue ink that reads "Evelyn Kahl". The signature is written in a cursive style with a large initial 'E'.

By

Evelyn Kahl
Shareholder

EK:lg