

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking to
Establish Policies, Processes, and Rules
to Ensure Safe and Reliable Gas
Systems in California and perform
Long-Term Gas System Planning

Rulemaking 20-01-007

**RESPONSE OF THE DEPARTMENT OF MARKET MONITORING OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO THE
ASSIGNED ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENTS**

The Department of Market Monitoring of the California Independent System Operator Corporation (DMM) submitted the following comments on Questions 14(a) and 14(b) in Attachment 1 of the ruling seeking comments in this proceeding regarding potential revisions in the SoCal Gas OFO penalty structure.

Background

As noted in prior comments, DMM shares the concerns of other parties about the impact of the relatively high level of potential OFO noncompliance charges for SoCalGas under Stage 4 and Stage 5 OFOs on gas and electricity prices and costs.¹ Since OFOs are generally declared after most gas market trading and scheduling is completed, low OFOs can have the effect of increasing the wholesale gas price without significantly affecting the amount of gas flowing into the SoCalGas/SDG&E gas system.

DMM's prior comments included analysis of gas price data highlighting the impact of the potential for very high noncompliance charges during Stage 4 or Stage 5 OFOs in next day gas prices in the SoCalGas system. This analysis highlighted how the abnormally high wholesale gas prices which were experienced at the SoCal Citygate gas hub during October 2017 through May 2019 appear to have been driven in large part by market participants' expectation that SoCalGas would issue low OFOs at Stage 4 or 5 after the Cycle 1 (and possibly the evening day-ahead gas nomination cycle) gas transaction window has closed. The increase in gas prices created by the potential for high low OFO charges has had a direct impact on wholesale CAISO electricity prices, creating an amplified cost increase impact for end-use electric consumers that cannot be readily addressed through "better" gas scheduling.

¹ DMM response to joint petition for modification of low OFO stage 4 and stage 5 noncompliance charges, September 4, 2018.

<http://www.caiso.com/Documents/ResponsetoJointPetitionforModificationofDMMofCAISO-Sept42018.pdf>

These comments include updated versions of Figure 1 and Table 1 that were included as part of DMM's prior comments on this issue in other CPUC proceedings. Figure 1 shows the difference between next day gas prices for SoCal Citygate versus SoCal border (shown by the yellow line) along with potential noncompliance charges on days when low OFOs were declared (shown as blue dots) since June 2017. Table 1 shows the average difference between next day gas prices for SoCal Citygate versus SoCal border for different time periods since June 2017.

Figure 1 illustrates how next-day market gas prices at SoCal Citygate tend to increase following days when operational flow orders were declared. The magnitude of these gas price increases is correlated with the level of potential noncompliance charges associated with the order. High gas prices often persist for a significant period after operational flow orders are declared. As shown in Figure 1, the magnitude and persistence of high gas prices, potentially triggered by market expectations of high \$25/dth noncompliance charges under Stage 4 orders, became particularly significant during the months of February, July, August and December 2018.

As noted in Figure 1, the CPUC approved capping the Stage 4 and Stage 5 operational flow order (OFO) non-compliance penalties from \$25/dth to \$5/dth. This penalty structure was in place from June 1 through September 30, 2019. During this period, the SoCalGas Company did not declare any low OFOs exceeding Stage 1. Beginning October 1, 2019 through May 31, 2020, an alternate tiered structure has been in place, which expands the stages from 5 to 8. In the fourth quarter of 2019, SoCalGas Company did not declare any low OFOs exceeding Stage 3 (with a maximum penalty of \$5/dth).

As noted in DMM's 2019 annual report, the impact of the new noncompliance penalty structure beginning June 1, 2019, cannot be directly quantified because SoCalGas Company did not declare any Stage 4 or higher low OFOs during this period.² DMM's 2019 annual report also describes a variety of other factors which have contributed to lower SoCal Citygate gas prices since September 2019 by increasing the amount and flexibility of gas supply in the SoCalGas area. Nevertheless, DMM believes that modifications in SoCalGas' OFO penalty structure in place since June 2019 provides a valuable means of helping to mitigate the impact of relatively high level of potential OFO noncompliance charges could continue to have on gas and electricity prices and costs.

² *Annual Report on Market Issues and Performance*, Department of Market Monitoring, June 2020, p. 60. <http://www.aiso.com/Documents/2019AnnualReportonMarketIssuesandPerformance.pdf>

Figure 1. Impact of Potential Low OFO Noncompliance Charges on Next Day SoCal Citygate Prices

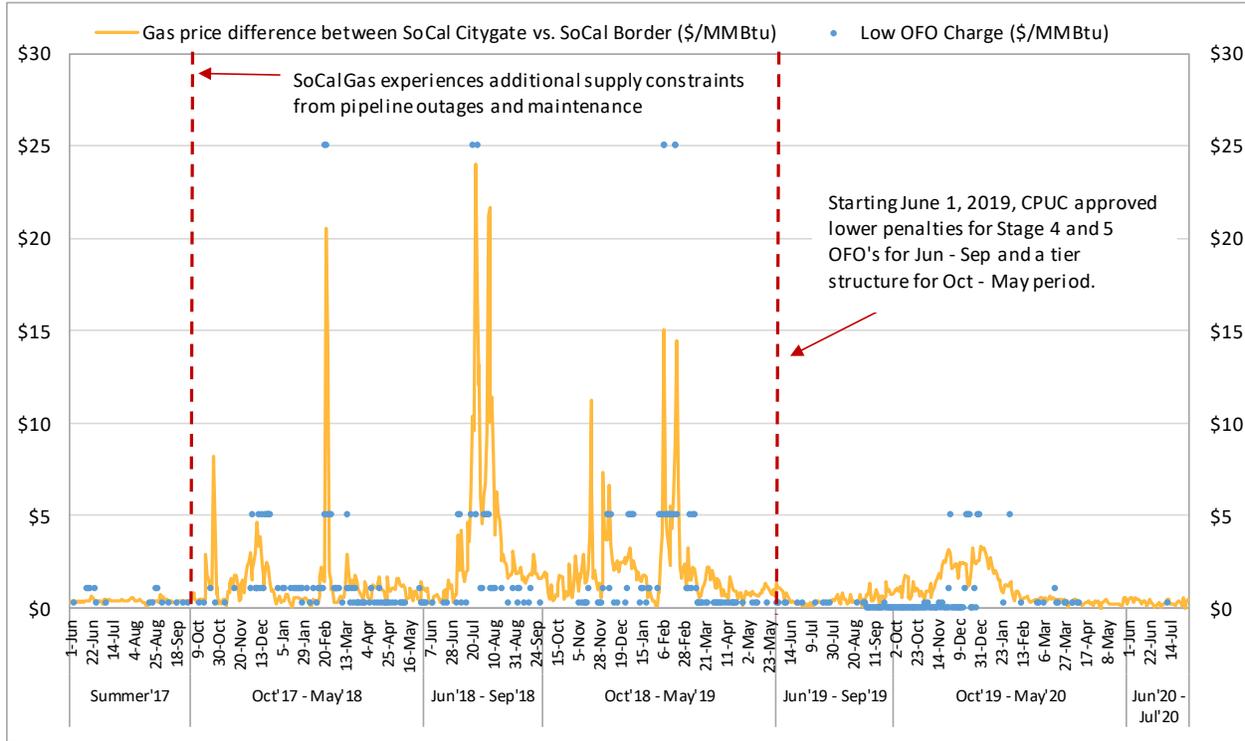


Table 1. Difference in Next Day Gas Prices at SoCal Citygate vs SoCal Border

Time period	Difference between gas price at SoCal Citygate versus SoCal Border (\$/MMBtu)		
	Min/Max	Average	Percent
Summer '17 (June - Sept)	\$0.09 / \$0.73	\$0.36	13%
Oct 2017 - May 2018	\$0.05 / \$20.50	\$1.28	50%
Summer '18 (June - Sept)	\$0.18 / \$24.00	\$3.81	137%
Oct 2018 - May 2019	\$0.10 / \$15.09	\$1.98	58%
Summer '19 (June - Sept)	\$0.07 / \$1.42	\$0.46	19%
Oct 2019 - May 2020	-\$0.03 / \$3.28	\$1.04	47%
Summer '20 (June - July)	-\$0.05 / \$0.56	\$0.29	17%

Response to Questions

Q. 14 (a) Should SoCalGas' winter OFO penalty structure be adopted year round?

Since OFOs are generally declared after most gas market trading and scheduling is completed, low OFOs can have the effect of increasing the wholesale gas price without significantly affecting the amount of gas flowing into the SoCalGas/SDG&E gas system. Therefore, DMM believes that the OFO penalty structure adopted in June 2019, including both the summer and winter OFO penalty structure, will help to mitigate the impact of relatively high level of potential OFO noncompliance charges on gas and electricity prices and costs. Adopting the winter OFO penalty structure in place of the revised summer OFO penalty structure in place today would allow higher OFO penalty levels during peak demand months for electricity, when the impact of these OFO penalty levels may be greatest.

Q. 14(b) Are there any risks in allowing the revised OFO penalty structure (D. 19-05-030) to expire in October 2021 and allowing the prior OFO penalty structure (D.15-06-004 and D. 16-06-039) to continue? (Track 1B, Scoping Memo Issue 3).

DMM believes that allowing the revised OFO penalty structure adopted in 2019 to expire in October 2021 and allowing the prior OFO penalty structure continue would increase the risk that high potential OFO noncompliance charges could significantly increase gas and electricity prices and costs without significantly increasing the amount of gas flowing into the SoCalGas/SDG&E gas system.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 14th day of August, 2020.

/s/ Candace M Cown

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