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Witness: Manuel Rincon and Jimmy Yen
Chapter: 15

**PREPARED REBUTTAL TESTIMONY OF MANUEL RINCON
& JIMMY YEN ON BEHALF OF SOUTHERN
CALIFORNIA GAS COMPANY AND SAN DIEGO
GAS & ELECTRIC COMPANY**

(STORAGE OVERVIEW AND PROPOSALS)

July 28, 2023

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1 **CHAPTER 15**

2 **PREPARED REBUTTAL TESTIMONY OF MANUEL RINCON AND JIMMY YEN**
3 **(STORAGE OVERVIEW AND PROPOSALS)**

4 **I. PURPOSE**

5 The purpose of this rebuttal testimony on behalf of Southern California Gas Company
6 (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (jointly, Applicants) is to address
7 the arguments, positions, and recommendations contained in intervenor testimonies served on
8 June 12, 2023, by the Southern California Generation Coalition (SCGC), the Long Beach Utility,
9 and The Utility Reform Network (TURN), regarding SoCalGas’s and SDG&E’s storage and load
10 balancing proposals for this proposed Cost Allocation Proceeding period (2024-2027).¹

11 **A. SoCalGas's Proposed Capacities and Storage Allocations Reflect the Latest**
12 **Available Forecasts**

13 The proposed cost allocation period is 2024 through 2027. SCGC disregards this fact
14 when they propose to preserve the current core storage allocations.² SCGC’s proposal would
15 base allocations on a stale forecast targeting the years 2020, 2021, and 2022, and ignore the
16 expected decrease in core demand for the later years published in the 2022 California Gas
17 Report. In response to California's decarbonization goal and the associated push for
18 electrification, core demand, and therefore, core needs, are expected to decline. In Applicants’
19 direct testimony, SoCalGas explains how core capacity requirements were calculated, and how
20 the calculations were based on the lower demand expectations.³ SCGC’s proposed allocation
21 asks the Commission to ignore the effects of California’s decarbonization efforts.⁴

¹ Given the volume of the various arguments, positions, and proposals raised by intervenors, Applicants have prioritized which issues to address in rebuttal testimony. Silence on any issue should not be construed as agreement with, or non-opposition to, that issue, as Applicants reserve the right to address additional issues not specifically mentioned in this rebuttal testimony at a later opportunity, such as evidentiary hearings and briefs.

² Ex. SCGC-01 (Yap) at 3:18-4:5.

³ Applicants’ Chapter (Ch.) 1 (Rincon/Yen) at 5-7.

⁴ Ex. SCGC-01 (Yap) at 6-7.

1 SCGC's claim that SoCalGas's inventory allocation is based on average effective
2 capacity is also incorrect.⁵ SoCalGas states that the inventory capacity is based on Decision (D.)
3 21-11-008, "which increased the maximum storage level for Aliso Canyon to 41.16 Bcf until the
4 completion of Phase 2 and Phase 3 of Investigation (I.) 17-02-002".⁶ SCGC also insinuates that
5 SoCalGas's summer injection capacity was estimated using a simple average.⁷ This is incorrect.
6 The average posted injection capacity during the observed period is lower than the proposed
7 injection capacity. In Chapter 1 (Rincon & Yen), SoCalGas clearly explains the methodology
8 used for calculating summer injection capacity.

9 SCGC opposes the use of average effective capacities and wrongly claims that they are
10 "inconsistent with precedent from past cost allocation proceedings".⁸ Yet, there is nothing novel
11 about using average available capacities. For example, D.16-06-039, which established storage
12 capacities for the CAP period 2016-2019, set summer injection capacity at 915MMcfd.⁹ As
13 SoCalGas explained in A.14-12-017,¹⁰ the approved summer injection capacity was estimated by
14 adjusting down the average injection capacity posted on Envoy for the summer of 2014 and
15 adding the expected additional capacity from the Aliso Canyon Turbine Replacement (ACTR)
16 project, which was not available in 2014. D.16-06-039 also adopted a winter withdrawal
17 capacity of 3,175 MMcfd, although the applicants identified in A.14-12-017 that, at the time, the
18 fields could withdraw 3,680 MMcfd when storage was full.¹¹ SoCalGas proposed a lower
19 withdrawal number because it better represented the withdrawal capacity that was usually
20 available to customers—in other words, the average effective capacity. In the last TCAP (A.18-
21 07-024), SoCalGas proposed an even lower summer injection capacity. The application reduced
22 summer injection capacity from the 915 MMcfd derived from an average posted injection to 790
23 MMcfd. SoCalGas proposed the reduction to "match reduced injection capability as a result of

⁵ Ex. SCGC-01 (Yap) at 2:2-15.

⁶ *Id.* at 2:19-21; D.21-11-008 at 2.

⁷ Ex. SCGC-01 (Yap) at 2:5-6.

⁸ *Id.* at 3:19-20.

⁹ D.16-06-039 at 16.

¹⁰ A.14-12-017, *Triennial Cost Allocation Proceeding Phase 1 Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Authority to Revise their Natural Gas Rates Effective January 1, 2016* (December 18, 2014) at 10.

¹¹ *Id.*

1 well safety enhancements" –in other words, in A.18-07-024, SoCalGas proposed to further adjust
2 an average posted injection capacity once again to better reflect effective capacity. This
3 proposed capacity was adopted by the Commission in D.20-02-045. Similarly, as SoCalGas
4 explained in A.18-07-024, the currently approved winter injection capacity of 500 MMcfd
5 represents the sum of the average posted injection capacity posted during the 2015 Winter and
6 the additional capacity provided by the ACTR Project, which was not available in 2015. Finally,
7 the current use of seasonal injection and withdrawal capacities contradicts SCGC. Peak injection
8 and withdrawal design capacities do not change during the year. SoCalGas’s use of lower off-
9 season capacities results from expected lower effective capacities due to off-season
10 maintenances and differing storage inventory levels.

11 **B. SCGC Appears to Confuse Capacity with Usage**

12 In their discussion of SoCalGas’s proposed modifications to the calculations of the
13 Operational Flow Orders (OFO), SCGC confuses capacity with usage. By doing so, SCGC
14 erroneously dismisses portions of SoCalGas’s testimony as “ignoring reality” and attempts to
15 support their objections with historical data having only indirect connection to the topic.¹²
16 SoCalGas’s statement that under the current rules customers can "inject 12,000 MMcf of
17 imbalance gas over a storage cycle" is a fact, not a hypothetical situation. A customer who
18 acquires 1 Bcf of storage inventory capacity holds 1 Bcf of capacity regardless of flows into and
19 out of their storage account. In the same manner, whether the cumulative customer imbalance,
20 which represents usage, fluctuates does not change the fact that imbalance customers still have
21 command over 12,000 MMcf of inventory capacity. But even when focusing on customer usage
22 as SCGC does rather than inventory capacity, SCGC's own evidence contradicts their repeated
23 assertion that "cumulative daily imbalances in reality do not swing."¹³ As shown in Figure 2,¹⁴
24 during a single storage season, imbalance customers first withdrew over 10,000 MMcf, then
25 injected another 10,000 MMcf.

¹² Ex. SCGC-01 (Yap) at 8:13-17.

¹³ *Id.* at 9.

¹⁴ *Id.* at 10.

1 SCGC also discusses daily scheduled quantities and monthly imbalance trades, which
2 they erroneously believe affect the total cumulative imbalance in the system.¹⁵ When two
3 customers trade imbalances, the net total cumulative imbalance does not change --the net
4 cumulative imbalance only changes if a customer moves an imbalance into or out of a storage
5 account. Suppose that there are only two customers in the system. Customer A has a positive
6 imbalance position of 1,000 MMcf, and Customer B has a negative imbalance position of 2,000
7 MMcf. In this scenario, the system has a net negative imbalance of 1,000 MMcf. Now suppose
8 that Customer A trades its positive 1,000 MMcf of imbalance with Customer B. After the trade,
9 Customer A no longer has an imbalance, and Customer B has reduced its position from 2,000
10 MMcf of negative imbalance to 1,000 MMcf of negative imbalance. The system net imbalance
11 remains unchanged. This is true regardless of the number of customers in the system because the
12 total system imbalance is the sum of imbalances across all customers.

13 Since imbalance trades cannot affect the total system imbalance, SCGC's claim that daily
14 scheduled quantity and monthly imbalance trades reduced cumulative negative imbalances is
15 incorrect. Therefore, significant negative imbalances, like those SCGC shows in figure 3,¹⁶ are
16 still possible and support the need to modify the OFO calculations.

17 **C. Balancing Plus Is an Improvement Over the Unbundled Storage Program**

18 Long Beach's claim that "the Balancing Plus function offers the same service as the
19 Unbundled Storage Program"¹⁷ is incorrect. Unlike the Unbundled Storage Program, Balancing
20 Plus has full pricing transparency and time of sale predictability. And unlike the Unbundled
21 Storage Program, Balancing Plus optimizes the use of scarce storage assets by making assets
22 always available to all customers.

23 SoCalGas agrees that when considered only from the narrow point of view of a
24 successful buyer of Balancing Plus services, Balancing Plus offers the same services as the
25 Unbundled Storage Program. Yet, this ignores how storage is sold under each program and the
26 benefits that only Balancing Plus provides to all customers, not just successful bidders. Consider
27 the reservation price of each service. The Balancing Plus program has a fixed and disclosed

¹⁵ Ex. SCGC-01 (Yap) at 13-16.

¹⁶ *Id.* at 12

¹⁷ Long Beach Direct Testimony Ch. 3 (Neal) at 3-7:13.

1 reservation price equal to the allocated cost of storage. Thus, Balancing Plus offers full price
2 transparency to the bidder. In contrast, the Unbundled Storage Program has a variable and
3 undisclosed reservation price since SoCalGas sells unbundled storage only if the bid is equal or
4 greater than the expected revenues that SoCalGas believes it can realize with its park and loan
5 service. SoCalGas may also increase the reservation price for unbundled storage if it believes
6 price spreads are likely to increase in the future. In such a case, SoCalGas will set a reservation
7 price for unbundled storage that reflects its market view and in effect temporarily set a
8 reservation price above the prevailing fair market value. Such common situations cannot occur
9 with Balancing Plus since the program gives SoCalGas no discretion on the time of sale, offered
10 volume, or reservation price.

11 In addition, only Balancing Plus optimizes scarce storage assets. For example, SoCalGas
12 is unlikely to sell unbundled storage from July to December at a price below the net spread
13 between the lowest and the highest priced months within that period since revenues are typically
14 maximized by parking gas between those months rather than by selling unbundled storage. If the
15 largest net price spread occurs between the months of October and December, SoCalGas will not
16 sell unbundled storage at a price lower than that spread. Instead, SoCalGas will prefer to park
17 gas from October to December and consequently reserve unbundled storage assets for higher
18 value services. These unsold unbundled storage assets will likely sit idle and provide no services
19 to any customer until the park starts in October. This example illustrates the fact that under the
20 Unbundled Storage program there are times when revenues are maximized by keeping
21 unbundled storage assets on reserve. On such occasions, those assets may not be available to any
22 customer. As explained, if the prices between July, August, and September do not cover
23 injection and carry costs, or the price market participants are willing to bid for July to December
24 storage is less than the net price spread between October and December, unbundled storage
25 assets may become unavailable for the period between July and September. On the contrary,
26 balancing plus assets will be made available to balancing customers during those three months.
27 Thus, under the same scenario, unsold balancing plus assets will reduce the likelihood of high
28 and low OFOs during the months of July, August, and September.

1 **D. The Proposed Balancing Plus Sale Mechanism Obviates the Need for a**
2 **Sharing Mechanism**

3 Long Beach states that the purpose of a sharing mechanism is to "incentivize SoCalGas
4 to devote resources to marketing and selling unbundled storage."¹⁸ Though that may be one
5 potential outcome, the purpose of a sharing mechanism is to align the incentives of the agent, in
6 this case SoCalGas, with the interest of ratepayers, the principals. Of course, a sharing
7 mechanism presupposes that the agent has discretion and that its actions can affect the outcome
8 of the process either to the benefit or the detriment of the principal. This assumption does not
9 hold under the proposed Balancing Plus service: SoCalGas has no discretion over the volume,
10 the price, or the time of the sale of assets in the Balancing Plus program. As explained in
11 Chapter 1 of SoCalGas's testimony, sales will be conducted at predetermined intervals and on
12 dates set for the duration of the CAP, with a reservation price also fixed for the duration of the
13 CAP, and for the full volume of available assets under the program. Under such constraints,
14 there is no reason to establish an incentive mechanism. Adding a sharing mechanism for
15 Balancing Plus will simply increase the administrative costs but will have no effect on the
16 behavior of SoCalGas.

17 Long Beach asserts that "it is unclear whether customers would have adequate incentives
18 to purchase balancing plus capacity for load balancing purposes when that capacity is made
19 available for system load balancing, if it's not sold at auction."¹⁹ Yet, Long Beach's own
20 testimony shows that at least some customers are not indifferent between purchasing capacity
21 and relying solely on a shared balancing service. Chapter 3 of Long Beach's testimony is
22 entirely used to petition their right to purchase additional storage assets. Clearly Long Beach is
23 not indifferent between relying on purchased storage rights and relying on shared balancing
24 assets given the amount of testimony dedicated to the issue. Long Beach's own testimony shows
25 that customers have heterogeneous balancing needs given that, for example, customers with
26 seasonal loads, like Long Beach or electric generators, value long duration balancing services
27 more than other customers and are willing to pay for additional services.

¹⁸ Long Beach Direct Testimony Ch. 4 (Neal) at 4-4:1-2.

¹⁹ *Id.* at 4-4:7

1 **E. TURN’S Proposal Is Devoid of Necessary Details to Be Adopted**

2 TURN proposes to “excuse core customers from paying for Load Balancing inventory
3 costs, because the core’s inventory space and gas in storage would be used to provide load
4 balancing service in the event of cumulative under-deliveries.”²⁰ This proposal may be
5 impossible to implement given that 1) the core still has access to the shared storage capacity and
6 2) SoCalGas cannot in advance identify the ownership of the gas or the timing of any loan” of
7 cumulative customer imbalances. For example, SoCal Gas cannot determine in advance whether
8 cumulative customer imbalances may stay positive for the entire CAP period. Given the
9 vagueness of this proposal, it should be rejected.

10 This concludes the prepared rebuttal testimony.

²⁰ Ex. TURN-01 (Florio) at 68.