

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

Application of Pacific Gas and Electric
Company Proposing Cost of Service and
Rates for Gas Transmission and Storage
Services for the Period 2015 – 2017 (U
39-E)

A.13-12-012
(Filed December 19, 2013)

And Related Matter.

Investigation 14-06-016
(Filed June 26, 2014)

**CONCURRENT DIRECT TESTIMONY OF
GILL RANCH STORAGE, LLC**

August 11, 2014

{00986912}

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1 **I. Introduction.**

2 Gill Ranch Storage, LLC is an Oregon limited liability company formed in 2007 for the
3 purpose of developing the Gill Ranch Gas Storage Facility (“Facility”), located primarily in
4 Madera, California. GRS owns a 75% undivided interest in the Facility, and Pacific Gas and
5 Electric Company (“PG&E”) owns a 25% undivided interest. The California Public Utilities
6 Commission (“Commission” or “CPUC”) granted GRS’ and PG&E’s consolidated applications
7 for certificates of public convenience and necessity on October 29, 2009, in Decision (“D.”) 09-
8 10-035.

9 The Facility consists of an approximately 20 billion cubic foot (“Bcf”) underground
10 natural gas storage field, a compressor station and associated dehydration and control facilities,
11 an approximately 27-mile pipeline extending from the storage reservoirs to an interconnection
12 with PG&E’s Line 401, and an electric substation that is connected to an approximately 9-mile
13 115 kV electric power line, which is owned and operated by PG&E and serves the compressor
14 station. GRS’ 75% ownership interest includes 15 Bcf of storage capacity. GRS offers
15 competitive gas storage services at market-based rates from its 75% interest in the Facility.¹

16 **II. Summary of Recommendations.**

17 GRS’ main goals in this proceeding are to ensure that (1) operating and balancing rules
18 recognize and accommodate the potential of storage resources to help the state achieve
19 renewable procurement standard (“RPS”) and greenhouse gas (“GHG”) emission reduction
20 goals, and (2) GRS is able to fairly compete in the provision of storage services with PG&E, the
21 three existing independent storage providers (“ISPs”), Central Valley Gas Storage, LLC, Lodi
22 Gas Storage, L.L.C., and Wild Goose Storage, LLC, and any new independent providers that
23 may begin operations on PG&E’s system.

24 With respect to the first goal, GRS supports PG&E’s proposal to add an additional gas
25 scheduling cycle late in the gas day (*i.e.*, the “fifth nomination” or “late cycle”), because it is
26 consistent with RPS goals and the related need for gas-fired generation to support variable
27 renewables.² Additionally, GRS recommends that daily balancing be required.

28 With respect to the second goal, GRS has carefully considered PG&E’s proposal to
29 eliminate the revenue sharing mechanism in the approved Gas Accord V Settlement Agreement

¹ GRS and PG&E each separately market its share of capacity from the Facility and, therefore, are competitors in the provision of storage services in California.

² PG&E Prepared Testimony, pp. 10-40 – 10-41.

1 and to replace it with full balancing account protection for all transmission and storage revenues,
2 except for Gill Ranch storage revenues.³ GRS addresses this proposal as a party to the Prepared
3 Direct Testimony of John Fortman, Bentley Ledene, and David A. Weber on Behalf of Central
4 Valley Gas Storage, LLC, Gill Ranch Storage, LLC, and Wild Goose Storage, LLC (“Joint ISP
5 Testimony”), which is also being served on August 11.⁴

6 **III. Fifth Nomination or Late Cycle Nomination Proposal Should Be Approved.**

7 PG&E explains that it has been active with the California Independent System Operator,
8 the Federal Energy Regulatory Commission (“FERC”), and other parties to evaluate the impacts
9 of increasing levels of variable electric generation resources, such as intermittent wind and solar
10 resources, on PG&E’s system.⁵ While PG&E believes these impacts generally can be managed
11 within the existing market structure and physical and operational resources, PG&E identifies one
12 necessary change, the addition of a gas scheduling cycle late in the gas day.⁶ PG&E states that
13 this fifth nomination or late cycle (“Late Cycle”) will allow shippers to change their gas supplies
14 as the dispatch of electric generation is known throughout a day.⁷

15 California law requires that at least 25% of its electric supply is generated by renewable
16 resources by 2016, and 33% by 2020.⁸ California law additionally requires that GHG emissions
17 be reduced to 1990 levels by 2020, which further emphasizes the importance of renewable
18 resources.⁹ The availability and quantity of renewable resources on any day is variable, and
19 largely based on natural conditions, including wind and sun availability. Natural gas-fired
20 generation resources are used to stabilize the electric grid in the face of this variability, which
21 can result in significant increases or decreases in demand for gas.

22 This load variability will only increase as California implements its RPS and GHG
23 emission reduction goals, and it is vital that California’s gas pipeline system be able to
24 accommodate increasing load fluctuations. PG&E states that there are times when it is not able
25 to accommodate changes in load “without either additional supply being brought onto the system

³ *Id.*

⁴ While GRS does not further address PG&E’s balancing account proposal further in this GRS-
only testimony, GRS reserves the right to address the matter as appropriate as the proceeding moves
forward.

⁵ PG&E Prepared Testimony, p. 10-40.

⁶ *Id.*

⁷ *Id.*

⁸ Pub. Util. Code §§ 399.11 – 399.32.

⁹ Cal. Health & Safety Code § 38550.

1 or having excess supply redirected to storage or to other markets.”¹⁰ Accordingly, PG&E
2 proposes to add a fifth nomination cycle, the Late Cycle, following the Intraday 2 cycle.¹¹ The
3 nomination deadline for the Late Cycle would be 9:00 pm on the Gas Day.¹² Late Cycle
4 nominations would be limited to transactions with on-system storage providers and at PG&E
5 Citygate, and transmission customers would be able to access injection or withdrawal service
6 from any on-system provider.¹³ PG&E provided limited additional detail regarding the Late
7 Cycle in a data response provided to GRS.¹⁴

8 Approximately two years ago, the Commission approved PG&E’s request to revise its
9 Gas Rule 21 to add a manual nomination modification process.¹⁵ That process was envisioned as
10 a valuable tool to help avoid operational flow order (“OFO”) situations caused by intraday
11 changes in demand. While the manual modification process was an important first step towards
12 utilizing existing on-system storage assets to balance pipeline inventory, it included stringent,
13 highly specific eligibility and participation parameters, and would only have been available in
14 the event that PG&E called simultaneous high and low inventory OFOs.¹⁶ Before this process
15 was implemented, PG&E informally announced that the issues that required simultaneous OFOs
16 no longer existed, and so PG&E was returning to its standard balancing provisions (*i.e.*, it might
17 call a high or a low inventory OFO, but not both on the same gas day). Thus, even if a
18 transporter was interested in using the manual modification process, it was not able to do so. As
19 California moves towards its RPS and GHG emission reduction standards, more flexible gas-
20 fired generation will be required to balance the grid effects of variable renewable generation.
21 Increased gas supply flexibility will be required for this gas-fired generation. This increasing
22 need for flexible gas supply can be met in large part by the ISPs already connected to PG&E’s
23 system under PG&E’s proposed Late Cycle.¹⁷ The proposed Late Cycle is a critical next step
24 towards full intraday scheduling flexibility, which can be used by transportation customers with
25 firm storage (and other storage) rights to inject or withdraw gas as needed to balance their
26 accounts on a daily basis.

¹⁰ PG&E Prepared Testimony, pp. 10-40 – 10-41.

¹¹ *Id.*

¹² *Id.* at p. 10-41.

¹³ *Id.*

¹⁴ PG&E Data Response GillRanchStorage_002-03.a (included as Attachment A hereto).

¹⁵ PG&E Advice Letter 3240-G; Resolution G-3466.

¹⁶ *See* PG&E Rule 21, Section B.3.i.

¹⁷ It appears that ISP participation in the Late Cycle is optional.

1 GRS is aware that FERC is presently considering proposals to add nomination cycles. It
2 is possible that FERC may approve a nomination structure that includes five or six cycles.
3 PG&E states that either approach would satisfy the objective of PG&E's proposed Late Cycle.¹⁸
4 PG&E further indicates that if FERC orders or approves a nomination structure that includes five
5 or six cycles, PG&E would adopt it, rather than create its own.

6 It appears that a FERC order on a revised nomination structure may not issue until the
7 end of 2015 or later.¹⁹ GRS takes no position here regarding the substance of any potential
8 FERC order. However, in light of the demonstrated current need to accommodate increasing
9 load variability and given the vagaries around the timing and content of any FERC order, GRS
10 recommends that the Commission adopt PG&E's proposed Late Cycle now, at least on an
11 interim basis pending FERC action.

12 **IV. Customer Nomination Redirect.**

13 PG&E also proposes to implement a Customer Nomination Redirect Project, pursuant to
14 which PG&E's Gas Transaction System would be modified to allow customers to redirect
15 scheduled gas quantities to a storage account or another customer's natural gas service
16 agreement if they are not able to use the gas as planned.²⁰ PG&E states that this project will
17 allow customers, particularly natural gas-fired generators, to better manage supplies during an
18 OFO and as part of renewables integration and, therefore, to avoid OFO penalties and
19 uneconomic commodity transactions.²¹ In a data response, PG&E indicates that the Customer
20 Nomination Redirect Project is in the "conceptual phase" and that detailed implementation steps
21 remain to be determined.²²

22 It is possible that the proposed Customer Nomination Redirect Project would help
23 address the load variability issues addressed above. To the extent the Commission approves
24 PG&E's conceptual proposal, it should require that PG&E implement it in a manner that is
25 consistent with the state's increasing need for flexible gas supply.

¹⁸ PG&E Data Response GillRanchStorage_002-03.b (included as Attachment A hereto).

¹⁹ See, e.g., Notice of Proposed Rulemaking, Docket No. RM-14-2-000 (available on FERC's web
site: <http://www.ferc.gov/whats-new/comm-meet/2014/032014/M-1.pdf>).

²⁰ PG&E Prepared Testimony, p. 10-41.

²¹ PG&E Prepared Testimony, pp. 10-41 – 10-42.

²² PG&E Data Response GillRanchStorage_001-05.a (included as Attachment B hereto).

1 **V. Daily Balancing Should Be Required.**

2 In addition to the intraday flexibility that the proposed Late Cycle would provide, daily
3 balancing should be required, in place of the current monthly balancing system (and the existing
4 self-balancing option). PG&E is proposing a \$1.28 billion revenue requirement for 2015, which
5 is approximately \$555 million higher than the authorized 2014 revenue requirement.²³ A
6 significant portion of the increase is attributable to PG&E’s proposals for replacing or rebuilding
7 its gas transmission system and for allocating additional PG&E storage assets to balancing.²⁴

8 Requiring daily balancing and implementing the Late Cycle would increase the effective
9 capacity of PG&E’s system to meet the expected sharp fluctuations in gas demand caused by
10 gas-fired generation required to integrate highly variable renewable generation into the electric
11 grid. This would potentially allow PG&E to avoid or defer some of the infrastructure
12 expenditures it proposes, which in turn would reduce the impact of PG&E’s revenue requirement
13 and rate increase proposal on its customers.²⁵ Further, daily balancing could potentially improve
14 safety, by minimizing dramatic swings in pipeline inventory that can occur under monthly
15 balancing where OFOs are called only when linepack is very high or very low.

16 By taking some of the burden off of PG&E’s system, daily balancing also could help
17 alleviate a potential ratepayer subsidy issue. The current balancing system does not appear to
18 appropriately reward transportation customers who closely manage their accounts through the
19 use of storage services provided by ISPs. The current balancing system appears to encourage
20 dependence on PG&E’s ratepayer-funded assets to balance individual variances. This raises the
21 question whether ratepayers are subsidizing PG&E’s transportation customers. Not only is this a
22 problem for PG&E’s ratepayers, it also puts ISPs at a competitive disadvantage. GRS
23 recommends that daily balancing be required to address system changes resulting from
24 implementation of state RPS and GHG goals, and to avoid ratepayer subsidy issues.²⁶

²³ PG&E Application, p. 12.

²⁴ *See, e.g.*, PG&E Prepared Testimony, Chapters 4, 4A and 4B.

²⁵ A switch to daily balancing could also be accomplished as part of the other extensive administrative system changes PG&E proposes. (*See, e.g.*, PG&E Prepared Testimony, p. 11-5, Table 11-3.)

²⁶ PG&E also proposes to increase its storage capacity dedicated to balancing. Without increasing storage capacity dedicated to balancing, PG&E states that it “may have to move from monthly to daily balancing to manage fluctuating intraday demands.” (PG&E Prepared Testimony, p. 10-48.) As discussed in the Joint ISP Testimony, GRS generally supports PG&E’s proposals to reduce PG&E’s

1 **VI. Conclusion.**

2 Based on the foregoing, GRS supports PG&E’s proposal to add an additional gas
3 scheduling cycle late in the gas day (*i.e.*, the “fifth nomination” or “late cycle”), because it is
4 consistent with RPS goals and the related need for gas-fired generation to support variable
5 renewables. Additionally, GRS recommends that daily balancing be required.

presence in the competitive storage market. However, GRS asserts that daily balancing is necessary even if PG&E increases storage capacity dedicated to balancing, for the reasons set forth herein.

STATEMENT OF QUALIFICATIONS

DAVID A. WEBER

My name is David A. Weber. My business address is 220 NW 2nd Ave., Portland, Oregon 97209. I joined Gill Ranch Storage, LLC (“GRS”) as President & CEO in 2011. I received a Bachelor of Science degree in Biological Sciences, Chemistry and Mathematics from the University of Denver in 1980. I am responsible for all business and operational functions of GRS.

GRS is a subsidiary of Northwest Natural (“NW Natural”). I joined NW Natural in 2000 and served as managing Director of Information Services and Chief Information Officer for the company until 2011. Prior to NW Natural, I had a 15-year career at IBM, as a project executive and consultant. I also served five years active duty in the U.S. Marine Corps.

I am a past chair of the American Gas Association’s Technical Advisory Committee and currently serve as a Board Member and Secretary of Junior Achievement and as a Board Member and Treasurer of American Leadership Forum of Oregon.

I have not previously testified before the California Public Utilities Commission. I have sponsored testimony before the Oregon Public Utility Commission.

ATTACHMENT A

PACIFIC GAS AND ELECTRIC COMPANY
Gas Transmission and Storage Rate Case 2015
Application 13-12-012
Data Response

PG&E Data Request No.:	GillRanchStorage_002-03		
PG&E File Name:	GTS-RateCase2015_DR_GillRanchStorage_002-Q03		
Request Date:	June 12, 2014	Requester DR No.:	002
Date Sent:	June 30, 2014	Requesting Party:	Gill Ranch Storage, LLC
PG&E Witness:	Mei Christopher	Requester:	Ann L. Trowbridge

QUESTION 3

In PG&E's Data Response to Data Request No.: GillRanchStorage_001-06, PG&E states that "The details around the confirmation and scheduling deadlines for the proposed Fifth Nomination Cycle are not yet determined."

- a. How will the details around the confirmation and scheduling deadlines for the proposed Fifth Nomination Cycle be determined? What parties will be involved in the decision-making process? Will this be an internal PG&E process, or will outside interests, such as Independent Storage Providers, be involved?
- b. You also note that a Fifth Nomination Cycle is the subject of discussion at FERC, and state that any decisions by FERC to implement a fifth nomination cycle would supersede any PG&E proposal. The FERC proposal is quite different than the PG&E proposal in that it is for an additional cycle open to all shippers, and is not limited to on-system storage providers and at PG&E Citygate. Please explain how and why a FERC decision should impact PG&E's implementation of a Late Nomination Cycle.

ANSWER 3

- a. The details around the confirmation and scheduling deadlines for PG&E's proposed Fifth Nomination Cycle have been determined by PG&E to the following extent: the deadline for the fifth nomination cycle will be 9:00 PM Pacific Time (PT) of the Gas Day and gas flow will start at 11:00 PM PT of the Gas Day. The time at which PG&E will issue the report of confirmed and schedule volumes for the fifth nomination cycle will depend on the processing time required by PG&E's schedulers and the Gas Transaction System. PG&E's objective is to provide the fifth nomination confirmed/scheduled volumes report as soon as feasible after the 9:00 PM nomination deadline and before the 11:00 PM start of gas flow. To the extent that other details regarding the fifth nomination cycle may differ from the other four cycles, PG&E will consult with interested outside parties before implementation.
- b. As stated in PG&E's 2015 Gas Transmission and Storage Rate Case testimony in Chapter 10 on page 10-40, "The fifth nomination or late cycle will allow shippers to change their gas supplies as each day's dispatch of electric generation becomes clearer throughout the day." The current Federal Energy Regulatory Commission (FERC) proposal is for six nomination cycles per gas day (two on the day before

gas flow and four on the gas day); The North American Energy Standards Board (NAESB) proposal is for five nomination cycles (two on the day before gas flow and three on the gas day). A FERC approved or ordered nomination structure that has five or six cycles would satisfy the objective of PG&E's proposed fifth nomination cycle. If FERC approves or orders such a structure, PG&E would adopt it rather than create its own.

ATTACHMENT B

PACIFIC GAS AND ELECTRIC COMPANY
Gas Transmission and Storage Rate Case 2015
Application 13-12-012
Data Response

PG&E Data Request No.:	GillRanchStorage_001-05		
PG&E File Name:	GTS-RateCase2015_DR_GillRanchStorage_001-Q05		
Request Date:	January 27, 2014	Requester DR No.:	001
Date Sent:	February 10, 2014	Requesting Party:	Gill Ranch Storage, LLC
PG&E Witness:	Mel Christopher	Requester:	Ann L. Trowbridge

QUESTION 5

With respect to the Customer Nomination Redirect Project (“Project”) described on pages 10-41 – 10-42 of PG&E’s testimony, please provide the following information:

- a. Please explain the proposed new Customer Nomination Redirect Project in detail, including (but not limited to) the steps to be taken by each party to a Project transaction and the timeline for a Customer Nomination Redirect request on a particular gas day.
- b. Please explain when and how an ISP would be notified of a Project transaction.
- c. Please explain when and how an ISP would confirm a Project transaction.
- d. Are Project transactions limited to the gas day, or may they occur after the gas day is over?
- e. Are Project nominations subject to Elapsed Prorata Scheduled Quantity (“EPSQ”) ? If so, please explain how EPSQ is calculated.
- f. Please explain how the Customer Nomination Redirect Project differs from the proposed Fifth Nomination Cycle (pages 10-40 – 10-41).

ANSWER 5

- a. The Customer Nomination Redirect Project is in the conceptual phase and the detailed implementation steps to be taken by each party to the transaction have yet to be determined. The concept is to allow a customer to redirect gas volumes away from an on-system end-use location in a Natural Gas Service Agreement to another on-system delivery point even though the volumes might otherwise exceed the limit imposed by the Elapsed Pro Rata Scheduled Quantity (EPSQ). This means that the redirect function would only be available during the intraday nomination cycles. Design details would be defined and developed in 2015. Additional information about the project is also provided in the Testimony for Chapter 11 on pages 11-25 through 11-26.
- b. The Independent Service Provider (ISP) would be notified in the corresponding standard manner of nominations, including current reports and screens. PG&E

proposes that a redirection would appear and be treated as a standard nomination, except it would be confined to on-system intraday transactions.

- c. The ISP would submit a matching nomination in INSIDetracc/Gas Transaction System as it does for any other nomination. PG&E proposes that a redirected nomination would occur as a nomination during the intraday nomination cycles.
- d. PG&E proposes that transactions would be limited to the intraday nomination cycles for the gas day. Transactions would not be retroactive to a prior gas day.
- e. PG&E proposes that the customer would be held to the EPSQ limit for normal nominations and deemed to have brought the prorated volumes onto the system, but would be able to redirect these volumes along with the remainder of the nominated volumes to an alternate location. If the alternate location did not accept the redirected volumes, the volumes would remain scheduled for delivery to the original Natural Gas Service Agreement point, and the EPSQ limit would apply.
- f. The fifth nomination cycle would be a new gas scheduling cycle and not directly related to the Customer Redirect function. PG&E proposes that the Customer Redirect function would allow redirected nominations in any intraday cycle, not just in the fifth cycle.