Legislation Details (With Text)

File #:	19-872 **Version:** 1	**Name:**	
Type:	Consent Calendar	**Status:**	Passed
File created:	7/15/2019	**In control:**	Council and Authorities Concurrent Meeting
On agenda:	9/17/2019	**Final action:**	9/17/2019
Title:	Action on a Resolution for the Natural Gas Service Agreement Modification and Revised Exhibits with Pacific Gas and Electric Company		
Sponsors:			
Indexes:			
Code sections:			
Attachments:	1. Resolution, 2. Sample Natural Gas Service Agreement Modification, 3. Resolution		

Date	Ver.	Action By	Action	Result
9/17/2019	1	Council and Authorities Concurrent Meeting	Adopted	

REPORT TO COUNCIL

SUBJECT
Action on a Resolution for the Natural Gas Service Agreement Modification and Revised Exhibits with Pacific Gas and Electric Company

BACKGROUND
The City of Santa Clara Electric Department, Silicon Valley Power (SVP) currently has a Natural Gas Service Agreement (NGSA) with Pacific Gas and Electric (PG&E) to supply gas pipeline transportation to each of SVP's natural gas power plants. On a typical three (3) year cycle PG&E files a Gas Transmission and Storage (GT&S) rate case at the California Public Utilities Commission (CPUC). The current active rate proceeding, GTS 2019, started with the submission of PG&E's testimony on November 17, 2017. SVP as a member of the Northern California Gas Coalition, provided extensive testimony regarding rate design with the desire to change the current methodology that collects PG&E's relatively fixed revenue requirement through a volumetric rate (-dollars per unit of throughput).

In a competitive market, each gas fired generator, such as the City's Donald Von Raesfeld (DVR) power plant, submits bids based on its marginal cost to produce power. Volumetric gas transportation rates must be included in these marginal cost calculations. PG&E's gas transportation system is segmented into what is term as a backbone system and local system. If the generator received natural gas on a backbone system, the power plant is charged the backbone rate tariff. If a generator is served by a local system, as is the case for DVR, it pays the backbone and local system rate tariffs combined. This means that gas fired generators on the backbone system, which do not pay the local system cost component have a growing competitive advantage. This allows less efficient, higher Greenhouse Gas (GHG) emitting plants to displace more efficient cleaner plants that are connected to the local gas transportation system based on the economic dispatch process currently used to select generators to produce power in the competitive market.

powered by Legistar™

Through the course of this rate proceeding and discussions, PG&E and a significant segment of market-responsive gas fired generation owners including Turlock Irrigation District, Modesto Irrigation District, Northern California Power Agency (NCPA), City of Redding, City of Roseville, Vistra Energy, and SVP have reached a negotiated rate. The negotiated rate converts a significant portion of PG&E's revenue requirement that would be collected from this class of customers to a fixed monthly charge. PG&E's applicable gas transportation tariff G-EG (Gas Transportation Service to Electric Generators) allows for negotiable rates between PG&E and its customers.

When the Natural Gas Service Agreement for DVR was approved by the City Council in August of 2004 the PG&E volumetric G-EG rate was $0.18/Dth (dekatherm). With the level of spending required by PG&E to make its gas system safe following the San Bruno explosion, the current rate has escalated to $1.53/Dth. This change in the gas transportation rate has increased DVR's operation costs nearly $30,000 per day when DVR is generating power. Pending the outcome of this present rate proceeding, GT&S 2019, it will likely exceed $1.76/Dth by 2021.

In 2004 the Council delegated authority to the City Manager to execute the NGSA with a not to exceed $2.5 million dollar per year amount. At that time this amount was sufficient to cover the expected and future cost associated with gas transportation, but with the on-going changes to PG&E's revenue requirement, $2.5 million dollars is no longer sufficient. Because the rate applicable to the NGSA is determined by the California Public Utilities Commission (CPUC) in the triennial PG&E GT&S proceedings, and is similar to purchasing fuel for the plant, gas transportation cost are nearly impossible to forecast at a specific annual not to exceed value for the monopoly gas transportation service. As a market responsive resource, SVP's gas fired generation is offered to the market based on marginal cost bids, which includes the cost of gas transportation, and only operates when the market price of power exceeds this marginal cost bid, or for system reliability. A cap on the amount of money that can be used to purchase gas transportation service would hurt the utility by creating artificial limits to the available run hours of SVP's gas units, and comes with an opportunity cost if the plants are not able to run.

DISCUSSION

Over the last decade the differential between PG&E's backbone rate and the local gas transportation rate has increased from $0.15 to $1.00. For a gas fired power plant such as DVR this equates to an $8.00/MWh additional marginal cost compared to that of a similar gas fired generator not subject to PG&E's local charge and an efficient plant like DVR less likely to be called on to generate power because of the gas transportation cost differential which raises the marginal cost bid. As the rate differential increases, PG&E's forecasted gas throughput for those electric generators that are economically dispatched by the California Independent System Operator and are situated on the local gas system has declined nearly 90% from historical natural gas throughput levels.

PG&E and many of its customers have realized that this is not in the best interests of PG&E or their gas customers, including SVP. A rate design that is rapidly driving power plants connected to the local gas system to shut down collects no revenue towards meeting PG&E's fixed cost of maintaining its gas pipeline system. To resolve this problem, PG&E and the market-responsive gas generator customers, discussed above, have developed a negotiated rate that converts a portion of PG&E's specific local gas system costs to a fixed charge. Hence, these electric generators would commit to pay a fixed charge, regardless of the amount of gas purchased, which would provide a minimum revenue source to PG&E towards maintenance of the pipeline system.

PG&E intends to make this negotiated rate available to all market-responsive generators connected

powered by Legistar™

to the local gas system, and we anticipate that all customers that have this option will see a significant economic benefit of electing that option. For DVR, the conversion of the local transportation component to a fixed rate has the potential to reduce its operating cost related to gas transportation by up to 50%, if DVR continues to run at its historical production levels.

A potential drawback to this negotiated rate is economic risk in the event that SVP's gas fired power plants have an extended forced outage. Under a volumetric rate design, SVP would pay nothing to PG&E for gas service during periods that a plant does not run, but under the negotiated rate, SVP would continue to make the fixed monthly payments (fixed charge). Based on SVP's track record of reliable power plants, staff believes the benefits exceed the risk of an extended outage and subsequent fixed costs that would still be paid in such an event.

The term of the negotiated rate will commence once the parties to the agreement sign the Natural Gas Service Agreement Modification, but this agreement will not be available until the CPUC issues a final decision that approves the PG&E 2019 GT&S application. The CPUC is required to issue a final decision within 18 months of PG&E submission of testimony, but in this case the CPUC has extended that period of time for an additional 6 months. SVP staff expects a final decision to come from the CPUC in the very near future, and an implementation of new rates based on that decision commencing October 1, 2019, however the exact timing is unknown. The ending date associated with the negotiated rate will coincide with the end of the term of the GT&S 2019 rate proceeding once it is approved. PG&E has requested that this be either December 31, 2021 or December 31, 2022 and will be determined in the CPUC final decision.

Considering the magnitude of the potential savings to be achieved from the negotiated rate it is critical that the City be ready to execute on the Natural Gas Service Agreement Modification as soon as this option becomes available. A delay of one month could easily exceed $500,000 in additional costs if SVP is subject to the full volumetric tariff rate instead of the new negotiated rate option.

Attachment 1 is an example of an already executed Natural Gas Service Agreement Modification entered between PG&E and NCPA whose format will be similar to what would be executed between PG&E and SVP pertaining to this action.

ENVIRONMENTAL REVIEW

This action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment.

FISCAL IMPACT

SVP estimates the savings associated with a negotiated rate option will be approximately 50% of what SVP would pay when compared to the full volumetric G-EG rate that would otherwise apply to SVP under the terms of the existing NGSA. Staff will continue to monitor Resources and Production costs and bring forward any budget amendment at a later date, if necessary.

COORDINATION

This report has been coordinated with the Finance Department and City Attorney's office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board

powered by Legistar™

outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <mailto:clerk@santaclaraca.gov> or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to negotiate and execute the Natural Gas Service Agreement Modification and Revised Exhibits which converts the standard PG&E G-EG tariff rate to the terms of the described negotiated rate in a form substantially similar to that in Attachment 2 and Subsequent Natural Gas Service Agreements, Natural Gas Service Agreement Modifications and Revised Exhibits required to support the continued operation of SVP's gas fired generation with Pacific Gas & Electric within approved budgeted amounts.

Reviewed by: Manuel Pineda, Chief Electric Utility Officer
Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Resolution
2. Sample Natural Gas Service Agreement Modification (Northern California Power Agency and PG&E)