LEC PPC Committee

Staff Report

AGENDA ITEM NO.: 12

Date: February 8, 2017

Meeting Date: February 13, 2017

To: LEC PPC Committee

Subject: Revision to PMOA Agreement Schedule 2.00

Proposal

Staff recommends approval for the revision to Schedule 2.00 of the PMOA to incorporate the allocation of Daily Fuel Imbalance Volume amounts exclusively to third party supply participants subject to the condition when there is no day-ahead prepurchased gas for LEC; the plant is not committed by the CAISO; and the LEC Project did not produce any metered energy for the operating day.

Background

Upon studying the decrease in LEC market activity following the PG&E gas transportation rate increase, staff discovered a systematic cost shift between third party gas supply participants and non-third party gas supply participants for the settlement of imbalance gas when the Project was not committed by the CAISO. Staff determined that this cost shift occurs under the specific set of conditions whenever: (1) LEC does not run, (2) there is no day-ahead procurement transaction for gas; and, (3) there exists a price difference between the daily PG&E city gate index price and the corresponding two-day lag price that is used to financially settle imbalance gas for the Project.

Agreement Schedule 2.00 of the PMOA describes the procedures for management and settlements of fuel supply for the LEC Project, including the allocation of daily imbalance gas to participants. Consistent with current version of Agreement Schedule 2.00, when LEC is not committed by the CAISO for scheduled energy and there is no prescheduled gas, any imbalance gas associated with third party supply is allocated to all LEC participants based on their respective Generation Entitlement Share (GES) and settled at the two-day lag price. This treatment is problematic under the specific condition described above as any imbalance gas amounts under this condition should be allocated to only those participants who provided third party gas supply. To ensure accurate treatment between third party gas supply participants and non-third party gas supply participants under the condition when LEC does not run and there is no prepurchased gas, Agreement Schedule 2.00 has been revised to reflect that only third party gas participants shall be subject to resulting imbalance gas amounts.

Fiscal Impact

The fiscal impact for LEC is zero. However, there is an offsetting adjustment between third party gas supply participants and non-third party gas supply participants. The total offsetting adjustment from July 2016 through December 2016 is less than 5% of the total LEC fuel cost for each participant. This adjustment will be incurred to implement the changes to the PMOA schedules.

Environmental Analysis

This topic does not result in a direct or reasonably foreseeable indirect change in the physical environment and are therefore not a “project” for purposes of Section 21065 of the California Environmental Quality Act. No environmental review is necessary.

Recommendation

Staff recommends that the Lodi Energy Center Project Participant Committee:

1. Pass a motion approving changes to PMOA Schedule 2.00 as attached to this staff report and described herein.
2. Approve a retroactive adjustment commencing with the start of Fiscal Year 2017 on the All Resources Bill, effective July 1, 2016.

Prepared by,

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Power Settlements Analyst

Attachments:
Redline copy of PMOA Schedule 2.00

Agreement Schedule 2.00

Fuel Supply Procurement, Delivery, and Management

NCPA is responsible for fuel supply procurement, delivery and management for the Project and, subject to PPC direction, may develop, negotiate and administer Project fuel supply arrangements (the "Fuel Management Contract" or "FMC"). The FMC is to govern Project fuel supply activities including but not limited to daily fuel scheduling (nominations), fuel purchasing/sales, fuel balancing and fuel pricing. In addition, the FMC is to provide for the choice by Participants and/or NCPA of arranging for the delivery of 3rd Party Supply (fuel which is not purchased under the FMC) to the Project. To provide alternate and/or additional fuel supply sources, NCPA may execute third party fuel supply agreements in the future as approved by the PPC. Any added or additional charges resulting from any Participant supplied fuel will be fully charged to such Participant(s).

From time to time and as directed by the PPC, NCPA may seek and analyze proposals from potential fuel managers for the Project, and subsequently recommend a fuel manager/supplier (the "Project Gas Supplier and Manager") to the PPC for its consideration.

Description of Current Fuel Management Contract

EDF Trading North America, LLC ("EDFT") is the current PPC approved fuel manager and is also a fuel supplier. The following components are included in the EDFT fuel supply and management contracts:

- North American Energy Standards Board (NAESB) Base Contract
- Special Provisions to the NAESB Base Contract
- Master Transaction Confirmation

The following summarizes the fuel settlements procedure for the EDFT fuel supply and management contracts and supplements the scheduling protocols in PMOA Schedule 1.00 "Scheduling and Dispatch Operations and Economic Criteria". (Note: if there were to be a conflict between procedures established in PMOA Schedules 1.00 and 2.00, NCPA staff would proceed with affected Project activities in a manner deemed prudent, reasonable and equitable by Project staff and bring such matter(s) to the PPC for discussion and clarification at the next subsequent PPC meeting).

Definitions:

- "3rd Party Imbalance" means all or any portion of 3rd Party Supply (less any quantity sold by NCPA to a party other than Seller) not delivered to Point of Delivery.
- "3rd Party Supply" is any fuel supply that is purchased by NCPA and/or Participant(s) which is not purchased under the FMC.

- "Actual Metered Usage" indicates the totaled measured Project fuel consumption over a particular period of time at the same meter(s) used to establish LEC fuel consumption for billing under the FMC.
- "Buyer" is NCPA acting on behalf of Project Participants pursuant to the PMOA.
- "Flow Day" is the calendar day that scheduled fuel supply is to be used or burned.
- "Fuel Management Contract: (FMC) governs forward fuel transactions (fuel purchasing/sales) and daily fuel related activities, e.g. nominations (scheduling) of fuel supply, fuel balancing, fuel pricing, and arrangement for delivery of 3rd Party Supply(s).
- "OFO/EFO" means Operational Flow Order or Emergency Flow Order as defined in the PG&E Gas Tariff.
- "PG&E Citygate Daily Index Price" means the volumetric weighted average of the PG&E Citygate prices (US$/MMBtu) as published in Platts Gas Daily and listed under "PG&E Citygate Midpoint".
- "PG&E Citygate Pool" shall, unless the context indicates otherwise, mean Seller's gas account with PG&E where PG&E tracks on a daily and monthly basis, the total quantity of gas nominated for delivery to Seller at PG&E Citygate (all additions to Seller's PG&E Citygate Pool) during a day or month and the total quantity of gas that Seller disposes of via delivery nominations submitted to PG&E (all deductions from Seller's PG&E Citygate Pool) during such day or month – all as adjusted by PG&E for any variances between such nominations and applicable quantities of gas actually received or delivered during such day or month. At the end of any calendar day or month, the gas balance in Seller's PG&E Citygate Pool may be positive, zero or negative.
- "PG&E Nomination Revision Deadlines" for each Flow Day are 9:30 AM and 4:00 PM on the day ahead of the Flow Day and 8:00 AM and 3:00 PM on the Flow day.
- "Prepurchased and Presale Gas" indicates any NCPA forward gas transactions with the Seller made under the FMC for one or more Participants pursuant to PSA Section 8.3 and/or under separate agreement(s) pursuant to PMOA Section 5.1.2.e.
- "Seller" is the fuel supplier and manager pursuant to the FMC (currently EDFT).
- "Standard Package(s)" means contiguous Flow Days that are traded as one package and must be purchased together and not individually, such as weekends (Saturday and Sunday would be one package) and holiday weekends (e.g. Saturday, Sunday, and Monday would be one package).
- Timely "Cycle" is prior to 6:30 AM of the business day immediately prior to the applicable Flow Day(s).

1) The day ahead Nominated Day Volume (NDV_{DA}) is the expected LEC fuel requirement (MMBtu/day) less Net 3rd Party Supply less Prepurchased Gas from Seller plus Presale Gas to Seller for the Flow Day. NCPA shall purchase/sell NDV_{DA} from/to Seller at the PG&E Citygate Daily Index Price or at another price as otherwise mutually agreed. The nomination notification for all day ahead schedules shall be provided by NCPA to Seller prior to 7:00 AM on the day ahead of the Flow Day. The expected LEC fuel requirement for the Flow Day shall be based on forecasted and historical results of power market activities and prices, and LEC Project operating information maintained by NCPA.

a) All day ahead expected LEC fuel requirements and related gas transaction(s) scheduled by Seller shall be valued at the PG&E Citygate Daily Index Price unless otherwise mutually agreed.

b) The expected LEC fuel requirement shall be allocated to Participants by respective GES, and adjusted for each Participant's share of Net 3rd Party Supply, if any, and applicable share of any Prepurchased Gas and/or Presale Gas. Participants providing 3rd Party Supply shall notify and schedule such quantities with NCPA by 6:30 AM on the day ahead of the applicable Flow Day(s) and shall arrange for delivery to the PG&E Citygate.

c) "Net NDV" = Net Nominated Daily Volume = NDV_{DA} + Prepurchased Gas – Presale Gas
   i) Includes only transactions between Buyer and Seller scheduled under the FMC.

d) "Net 3rd Party Supply" = 3rd Party Supply plus deliveries from Buyer's LEC storage account less sales of 3rd Party Supply and less deliveries to Buyer's LEC storage account
   i) Includes only transactions scheduled by Seller under the FMC.

e) The flowing costs shall be allocated to the responsible Participant(s):
   i) Seller shall be indemnified for costs of 3rd Party Imbalances and shall invoice Buyer either (a) the applicable PG&E Citygate Gas Daily Index price or (b) the actual costs attributable to such imbalances pursuant to the FMC.
   ii) Seller shall invoice Buyer the specific imbalance costs and amounts, as determined under 1(e)(i) above, for each affected 3rd Party Supply schedule.
   iii) Any 3rd Party Supply(s) nominated after the Timely Cycle and any non-Standard Packages will incur a management fee of $0.01/MMBtu to be paid to Seller by Buyer and allocated to the responsible Participant(s), as applicable.

2) "Revision Notifications" are revisions to the Net NDV and shall be made at least 2 hours prior to the remaining applicable PG&E Nomination Revision Deadlines for the Flow Day.

   a) Seller shall quote a price for each revision amount requested by NCPA. These revisions may be purchases/sales which may be needed to mitigate anticipated impacts of daily Fuel Imbalance Volumes and/or OFO/EFO penalties caused by LEC Project operation changes. Such price quote(s) will be based on Seller's market activities at the time of Revision Notification from NCPA. The final Net NDV is the Net NDV adjusted for all revision request(s) at price quote(s) accepted by NCPA. If no revision prices quotes are accepted by NPCA, then the final Net NDV is the Net NDV as established at 7:00 AM on the day ahead.

b) If Seller fails to respond to a revision request to the Net NDV upon timely notice from NCPA, then the price for the revision amount will be the PG&E Citygate Daily Index Price for the Flow Day.
c) Revision Notification impacts shall be allocated to Participants by respective GES.

3) The daily "Fuel Imbalance Volume" is the difference between the volumes received into Seller's PG&E Citygate Pool for expected NCPA LEC usage and the volumes delivered out of Seller's PG&E Citygate Pool for actual NCPA LEC usage.

   a) Fuel Imbalance Volume = Net NDV + Net 3rd Party Supply – Actual Metered Usage(s).
   b) The price for Fuel Imbalance Volume is the PG&E Citygate Daily Index Price applicable for the Flow Day following the first available transaction day after the NCPA LEC Fuel Imbalance Volume is determined (i.e. 2-day lag price).
   c) Seller shall receive the LEC Actual Metered Usage each day.
   d) Fuel Imbalance Volume charges shall be allocated to Participants by respective GES. When Prepurchased Gas is zero, the plant is not committed by CAISO, and LEC Actual Metered Usage is zero then Fuel Imbalance Volume credits shall be allocated to 3rd Party Supply Participants by respective 3rd Party Supply Participant Share.

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4) OFO/EFO penalties shall be determined by Seller as follows:

   a) If Seller's PG&E CItygate Pool does not incur a penalty, then no penalty will be assessed to Buyer for any daily Fuel Imbalance Volume.
   b) If Seller's PG&E Citygate Pool incurs a penalty, such penalty is to be prorated with other customers in Seller's PG&E Citygate Pool whose daily Fuel Imbalance Volumes contributed to the penalty assessed by PG&E.
   c) Seller will indemnify NCPA for any penalty assessment up to $10,000 per occurrence, but not to exceed a cumulative limit of $50,000 per calendar year.
   d) OFO/EFO penalty costs incurred by the LEC Project shall be allocated to Participants by respective GES.

5) "Market Adjustment" is a monthly payment from Seller to NCPA and shall be determined as follows: $0.01/MMBtu x the month's Actual Metered Usage. This payment from Seller shall be allocated monthly to Participants by respective GES.