

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

Application of Southern California Gas Company (U904G) and San Diego Gas & Electric Company (U902G) for Authority to Revise their Natural Gas Rates Effective January 1, 2017 in this Triennial Cost Allocation Proceeding Phase 2.

Application 15-07-014  
(Filed July 8, 2015)

**ORDER REQUIRING SOUTHERN CALIFORNIA GAS COMPANY TO ESTABLISH A MEMORANDUM ACCOUNT TO TRACK ITS AUTHORIZED REVENUES FOR THE ALISO CANYON GAS STORAGE FIELD****1. Summary**

This order requires Southern California Gas Company (“SoCalGas”) to establish a memorandum account, effective immediately, to track its authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate the Aliso Canyon gas storage field. SoCalGas shall establish the memorandum account by submitting a Tier 2 advice letter within five business days from the effective date of this order. The Commission will determine at a later time whether, and to what extent, the authorized revenue requirement and revenues tracked by the memorandum account should be refunded to SoCalGas’s customers with interest.

**2. Background**

Southern California Gas Company (“SoCalGas”) owns and operates the Aliso Canyon gas storage field (“Aliso Canyon”). On October 23, 2015, a massive gas leak was discovered at one of the gas wells in Aliso Canyon, which caused

Governor Brown to declare a state of emergency on January 6, 2016.<sup>1</sup> On February 18, 2016, California state officials announced that the gas leak was permanently sealed.<sup>2</sup>

Aliso Canyon is critical to ensuring a reliable supply of natural gas in Southern California for space heating, hot water, cooking, generating electricity, and other essential uses. However, due to the gas leak, natural gas has not been injected into Aliso Canyon since October 25, 2015, and injections will remain suspended until a comprehensive safety review of all gas wells in Aliso Canyon is completed by independent experts.<sup>3</sup> As of the date of today's order, it is uncertain if or when Aliso Canyon will resume normal operations.

The customers of SoCalGas are currently paying rates and charges that reimburse SoCalGas for its normal, business-as-usual costs to own and operate a fully functional Aliso Canyon.<sup>4</sup> Such costs include depreciation, rate-of-return, taxes, operations and maintenance, administrative and general, and all other direct and indirect costs that SoCalGas incurs to own and operate Aliso Canyon. Importantly, SoCalGas's current rates and charges do not include any costs

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<sup>1</sup> <https://www.gov.ca.gov/news.php?id=19264>

<sup>2</sup> <http://www.conservation.ca.gov/index/Documents/2016-05%20State%20officials%20confirm%20Aliso%20Canyon%20gas%20leak%20has%20been%20halted%2cdocx.pdf>

<sup>3</sup> <http://www.conservation.ca.gov/index/Documents/Comprehensive%20Safety%20Review%20Aliso%20Canyon.pdf>

<sup>4</sup> In general, the revenue requirement for the normal, business-as-usual costs to own and operate Aliso Canyon is authorized by the Commission in general rate case proceedings, cost-of-capital proceedings, and other proceedings (e.g., Decision 13-11-023/Application (A.) 09-09-020, which authorized up to \$201 million for new compressors and other facilities at Aliso Canyon). Every three years, in triennial cost allocation proceedings such as the instant proceeding (A.15-07-014), the authorized revenue requirement is allocated among customer classes and embedded into the rates and charges paid by SoCalGas's customers. Once adopted, the rates and charges are adjusted annually to true up the difference between the authorized revenue requirement and actual revenues.

incurred by SoCalGas in response to the recent gas leak in Aliso Canyon because the Commission has not authorized SoCalGas to recover such costs.<sup>5</sup>

### 3. Discussion

SoCalGas is currently collecting revenues from its customers for the normal, business-as-usual costs to own and operate Aliso Canyon, even though gas is not being injected into Aliso Canyon at this time due to the recent gas leak. It is uncertain if or when Aliso Canyon will resume normal operations. Therefore, to protect the financial interests of SoCalGas's customers, we will order SoCalGas to establish a memorandum account, effective immediately, to track its authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate Aliso Canyon.<sup>6</sup> SoCalGas shall establish the memorandum account by submitting a Tier 2 advice letter to the Commission's Energy Division within five business days from the effective date of today's order.<sup>7</sup>

The authorized revenue requirement and revenues tracked by the memorandum account shall accrue interest and be subject to refund. The Commission will determine at a later time whether, and to what extent, the

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<sup>5</sup> On December 23, 2015, the Commission's Executive Director instructed SoCalGas to track all of its costs for the Aliso Canyon gas leak, including efforts to stop the leak, replacement of lost gas, relocations of nearby residents, and litigation. ([http://www.cpuc.ca.gov/uploadedFiles/CPUC\\_Public\\_Website/Content/News\\_Room/News\\_and\\_Updates/12-23-15%20Southern%20California%20Gas%20Shall%20Provide%20Information%20to%20CPUC%20Concerning%20Costs%20Associated.pdf](http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/News_and_Updates/12-23-15%20Southern%20California%20Gas%20Shall%20Provide%20Information%20to%20CPUC%20Concerning%20Costs%20Associated.pdf))

<sup>6</sup> The revenues tracked by the memorandum account shall include actual and imputed revenues for Aliso Canyon-related costs allocated to San Diego Gas & Electric Company (SDG&E) and its customers.

<sup>7</sup> SoCalGas should serve a copy of the advice letter on the service list for A.15-07-014 on the same day that SoCalGas submits the advice letter.

tracked authorized revenue requirement and revenues should be refunded to SoCalGas's customers with interest.

The Commission may establish the procedure and timeframe for addressing the refund issue in A.15-07-014.<sup>8</sup> The parties in A.15-07-014 are invited to recommend an appropriate procedure and timeframe in their briefs that are scheduled to be filed and served in A.15-07-014 on June 10, 2016, or at such other time as directed by the assigned Commissioner and/or the assigned Administrative Law Judge for A.15-07-014.

Today's order does not address ratemaking issues associated with the revenues that SoCalGas received for its normal, business-as-usual costs to own and operate Aliso Canyon during the period commencing with the gas leak and ending with the effective date of today's order.

#### **4. Service of this Order**

The Executive Director shall cause today's order to be served on the service lists for the following open proceedings that include issues related to SoCalGas's normal, business-as-usual costs to own and operate Aliso Canyon:

- **A.14-12-017 re:** Triennial cost allocation proceeding, Phase 1, for SoCalGas and SDG&E. The scope of this proceeding includes the allocation of the inventory, injection, and withdrawal capacities of SoCalGas's gas storage fields (including Aliso Canyon) among the core, balancing, and unbundled functions.<sup>9</sup>

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<sup>8</sup> Today's order does not preclude the Commission from determining in another proceeding, such as an Ordering Instituting Investigation, the procedure and timeframe for addressing the refund issue.

<sup>9</sup> In the instant proceeding (A.15-07-014), SoCalGas and SDG&E propose to take the allocations of gas storage field capacities that are adopted in A.14-12-017 and (i) further allocate these capacities between SoCalGas and SDG&E, and (ii) set rates and charges for SoCalGas's and SDG&E's customers to recover, among other things, the authorized revenue requirement for the allocated gas storage field capacities.

- **A.14-11-003 and A.14-11-004 re:** Consolidated general rate case for SDG&E (A.14-11-003) and SoCalGas (A.14-11-004). The scope of this proceeding includes determining the bulk of the revenue requirement for SoCalGas's gas storage fields (including Aliso Canyon) for the three-year period starting in test year 2016.

## **5. Waiver of Comment Period**

The 30-day period for public review and comment on today's order is waived pursuant to Rule 14.6(c)(9) of the Commission's Rules of Practice and Procedures, which states as follows:

[F]or a decision in a proceeding in which no hearings were conducted where the Commission determines, on the motion of a party or on its own motion, that public necessity requires reduction or waiver of the 30-day period for public review and comment. For purposes of this subsection, "public necessity" refers to circumstances in which the public interest in the Commission adopting a decision before expiration of the 30-day review and comment period clearly outweighs the public interest in having the full 30-day period for review and comment. "Public necessity" includes, without limitation, circumstances where failure to adopt a decision before expiration of the 30-day review and comment period would place the Commission or a Commission regulatee in violation of applicable law, or where such failure would cause significant harm to public health or welfare. When acting pursuant to this subsection, the Commission will provide such reduced period for public review and comment as is consistent with the public necessity requiring reduction or waiver.

No hearings have been held thus far in this proceeding, and the scope of the hearings that will be held in May 2016 does not encompass the matters addressed by today's order. Public necessity requires that we waive the 30-day public review and comment period in order to minimize the amount of the potential refund that might be lost due to the legal constraints of retroactive ratemaking.

## **6. Assignment of the Proceeding**

Liane M. Randolph is the assigned Commissioner for this proceeding and Timothy Kenney is the assigned Administrative Law Judge.

### **Findings of Fact**

1. A massive gas leak was discovered at the Aliso Canyon gas storage field on October 23, 2015. On February 18, 2016, California state officials announced that the leak was permanently sealed.

2. As of the date of today's order, natural gas is not being injected into the Aliso Canyon gas storage field, and it is uncertain if or when Aliso Canyon will resume normal operations.

3. The customers of SoCalGas are currently paying rates and charges that reimburse SoCalGas for its authorized revenue requirement for its normal, business-as-usual costs to own and operate a fully functional Aliso Canyon. Such costs include depreciation, rate-of-return, taxes, operations and maintenance, administrative and general, and all other direct and indirect costs that SoCalGas incurs to own and operate Aliso Canyon.

4. SoCalGas's current rates and charges do not include any costs incurred by SoCalGas in response to the recent gas leak in Aliso Canyon because the Commission has not authorized SoCalGas to recover such costs.

5. No hearings have been held thus far in this proceeding. The scope of the hearings that will be held in this proceeding in May 2016 does not encompass the matters addressed by today's order.

**Conclusions of Law**

1. SoCalGas should submit a Tier 2 advice letter within five business days to establish a memorandum account, effective immediately, to track its authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate Aliso Canyon. The tracked revenues should accrue interest and be subject to refund.
2. The revenues tracked by the memorandum account should include actual and imputed revenues for Aliso Canyon-related costs allocated to SDG&E and its customers.
3. The Commission should determine at a later time whether, and to what extent, the authorized revenue requirement and revenues tracked by the memorandum account should be refunded to SoCalGas's customers with interest.
4. The Commission may establish the procedure and timeframe for addressing the refund issue in A.15-07-014. Parties in A.15-07-014 should have an opportunity to recommend an appropriate procedure and timeframe in their briefs due on June 10, 2016.
5. On the day that SoCalGas submits the advice letter identified in Conclusion of Law 1, SoCalGas should serve a copy of the advice letter on the service list for A.15-07-014.
6. Today's order does not address ratemaking issues associated with the revenues that SoCalGas received for its normal, business-as-usual costs to own and operate Aliso Canyon during the period commencing with the gas leak and ending with the effective date of today's order.
7. The Commission's Executive director should serve today's order on the service lists for A.14-12-007, A.14-11-004, and A.14-11-003.

8. Public necessity requires the waiver of the 30-day public review and comment period for today's order so as to minimize the amount of the potential refund that might be lost due to the legal constraints of retroactive ratemaking.

9. The 30-day period for public review and comment on today's order should be waived pursuant to Rule 14.6(c)(9).

10. The following order should be effective immediately so that the memorandum account required by the order may be implemented expeditiously.

## **O R D E R**

### **IT IS ORDERED** that:

1. Within five business days from the effective date of this order, stated below, Southern California Gas Company ("SoCalGas") shall submit to the Commission's Energy Division a Tier 2 advice letter to establish a memorandum account, effective immediately, to track SoCalGas's authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate the Aliso Canyon gas storage field. Such costs include depreciation, rate-of-return, taxes, operations and maintenance, administrative and general, and all other direct and indirect costs that SoCalGas incurs to own and operate Aliso Canyon in the normal course of business. Such costs exclude expenses associated with the recent gas leak at Aliso Canyon.

2. The authorized revenue requirement and revenues tracked by the memorandum account established pursuant to Ordering Paragraph 1 shall include actual and imputed revenues for Aliso Canyon-related costs allocated to San Diego Gas & Electric Company and its customers.

3. The authorized revenue requirement and revenues tracked by the memorandum account established pursuant to Ordering Paragraph 1 shall accrue interest and be subject refund. The Commission will determine at a later time whether, and to what extent, the tracked authorized revenue requirement and revenues should be refunded to Southern California Gas Company's customers with interest.

4. In Application (A.) 15-07-014, the Commission may determine the procedure and timeframe for determining whether, and to what extent, the authorized revenue requirement and revenues tracked by the memorandum account established pursuant to Ordering Paragraph 1 should be refunded to Southern California Gas Company's customers. The parties in A.15-07-014 may recommend an appropriate procedure and timeframe in their briefs filed in A.15-07-014 on June 10, 2016, or at such other time as directed by the assigned Commissioner and/or the assigned Administrative Law Judge for A.15-07-014.

5. On the day that Southern California Gas Company ("SoCalGas") submits the advice letter required by Ordering Paragraph 1, SoCalGas shall serve a copy of the advice letter on the service list for Application 15-07-014.

6. The Commission's Executive Director shall serve this order on the service lists for Application (A.) 14-12-017, A.14-11-004, and A.14-11-003.

7. The comment period for today's order is waived pursuant to Rule 14.6(c)(9) of the Commission's Rules of Practice and Procedures.

8. This proceeding remains open to address the matters set forth in the Assigned Commissioner's Ruling and Scoping Memo dated October 2, 2015.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.