

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation pursuant to Senate Bill 380 to determine the feasibility of minimizing or eliminating the use of the Aliso Canyon natural gas storage facility located in the County of Los Angeles while still maintaining energy and electric reliability for the region.

FILED
PUBLIC UTILITIES COMMISSION
FEBRUARY 9, 2017
SAN FRANCISCO, CALIFORNIA
INVESTIGATION 17-02-002

ORDER INSTITUTING INVESTIGATION

Summary

This Order Instituting Investigation (OII) is opened on the Commission's own motion pursuant to Senate Bill 380 (Statutes of 2016, Chapter 14) and Rule 5.1 of the Commission's Rules of Practice and Procedure. The purpose of this OII is to determine the feasibility of minimizing or eliminating the use of the Aliso Canyon Natural Gas Storage Facility (Aliso Canyon) while still maintaining energy and electric reliability for the Los Angeles region and just and reasonable rates in California. Southern California Gas Company, the operator of Aliso Canyon, is named as a respondent to this OII; however, the Commission expects and welcomes involvement and input from a wide range of interested entities to inform its decision-making process.

Responses to the proposed scope, schedule, and need for hearings are due 30 days after adoption of this OII by the Commission. The assigned

Administrative Law Judge in this proceeding will set a Prehearing Conference and Public Participation Hearings as soon as practicable after receiving responses.

1. Background

On May 10, 2016, Governor Brown signed into law Senate Bill (SB) 380, which, among other actions, creates a new Section 714 and 715 of the California Public Utilities Code. Of particular relevance to this Order Instituting Investigation (OII), Section 714(a) states:

The commission, no later than July 1, 2017, shall open a proceeding to determine the feasibility of minimizing or eliminating the use of the Aliso Canyon natural gas storage facility located in the County of Los Angeles while still maintaining energy and electric reliability for the region. This determination shall be consistent with the Clean Energy and Pollution Reduction Act of 2015 (Ch. 547, Stats. 2015) and Executive Order B-30-2015. The commission shall consult with The State Energy Resources Conservation and Development Commission, the Independent System Operator, the local publicly owned utilities that rely on natural gas for electricity generation, the Division of Oil Gas and Geothermal Resources in the Department of Conservation, affected balancing authorities and other relevant government entities, in making its determination.

1.1. Aliso Canyon Leak

On October 23, 2015, the Aliso Canyon Natural Gas Storage Facility (Aliso Canyon), operated by Southern California Gas Company (SoCalGas), began to leak natural gas from its underground storage facility located near Porter Ranch, California. Upon discovery and reporting of the leak, multiple agencies began to work with SoCalGas to remedy the situation and investigate its cause.

On January 6, 2016, Governor Brown issued a proclamation declaring the gas leak an emergency and setting forth several orders to mitigate damage, including requiring SoCalGas to maximize daily withdrawals of gas for use or storage elsewhere, a prohibition of any further injection into the storage facility until comprehensive review of the safety of the wells and the air quality of the surrounding community was completed, ensuring that SoCalGas bears responsibility for the costs related to the natural gas leak and strengthening oversight.

1.2. Commission Actions and Proceedings

Since first notice of the gas leak, the Commission has taken many actions within its jurisdiction as set forth below:

- (1) The Commission's Safety and Enforcement Division (SED) is investigating the cause of the leaks, as well as actions taken before and after the well leak was discovered on October 23, 2015, including whether proper public notification was provided. SED is also investigating issues related to the maintenance of the Aliso Canyon gas storage field in general. At the conclusion of the investigation, the Commission will have several enforcement options, depending upon what violations, if any, are identified. The options can include issuance of a staff citation or opening a formal Commission proceeding to determine fines and penalties.
- (2) The Commission will address costs and cost responsibility related to the leak in a future proceeding. On December 23, 2015, the Executive Director of the Commission sent a letter to SoCalGas directing it to track all costs associated with its actions related to the leaking well and to make that cost information publicly available.
- (3) On June 28, 2016, the Commission released the Staff Report on Aliso Canyon Availability and Reliability, as required by SB 380 (Pub. Util. Code § 715). In the report, staff made four determinations concerning reliability based inventory needs at

Aliso, production capacity requirements, the number of wells needed for production and the current availability of production wells. The determinations relied upon historical data and a modeling of the operations of the SoCalGas system.

- (4) Pub. Util. Code § 455.5 (b) requires a regulated utility to notify the Commission if any portion of a major facility has been out of service for nine consecutive months. Section 455.5 states in part:

In establishing rates for any electrical, gas, heat, or water corporation, the commission may eliminate the consideration of the value of any portion of any electric, gas, heat or water generation or production facility which, after having been placed in service, remains out of service for nine or more consecutive months, and may disallow any expenses related to that facility.

In the case of a gas storage facility, a facility qualifies for a notice under this section if the storage facility is not available to inject or withdraw gas at a rate of at least 25% of the capacity. SoCalGas filed this notice on January 13, 2017.

Pursuant to Pub. Util. Code § 455.5(b), the Commission will determine whether SoCalGas should be required to refund some Aliso Canyon related costs that it has recovered since the gas leak on October 23, 2015.

1.3. Other Agency Actions and Jurisdiction

Regulation of natural gas storage facilities falls under the jurisdiction of multiple agencies. Because of the nature of the leak and its impact on public health, air quality and reliability, agencies such as the California Air Resources Board, the Division of Occupational Health and Safety, the Office of Environmental Health Hazard Assessment, the Office of Emergency Services and the California Energy Commission are all playing a role.

The California Department of Conservation, Division of Oil, Gas and Geothermal Resources (DOGGR) has primary jurisdiction over the well and is

focusing an investigation on the mechanical and operational condition of the well to determine the cause of well failure and the subsequent natural gas leak. The Commission has jurisdiction over the above-ground infrastructure beginning where the storage facility connects to the pipeline, or “at the wellhead.” In addition, the Commission has jurisdiction over the recovery of costs related to the storage facility as well as ensuring that SoCalGas provides safe, reliable service at just and reasonable rates. The Commission and DOGGR are conducting their respective investigations in parallel as part of a collaborative effort. The Commission and DOGGR jointly directed SoCalGas to retain an independent, third party to perform a technical root cause analysis of the well to protect against future failures.

1.3.1. Memorandum of Understanding

The Commission shares regulatory responsibility with DOGGR over different aspects of natural gas storage facilities. On December 15, 2016, the Commission approved a Memorandum of Understanding with DOGGR (Resolution L-515) to coordinate and clarify jurisdictional responsibilities and to allow for efficient and effective regulation of natural gas storage fields. The Memorandum of Understanding does not alter the statutory authority of either agency; rather it provides a framework for each agency to inform the work of the other.

2. Preliminary Scope and Issues

The primary issue for consideration in this proceeding, pursuant to SB 380, concerns the continued safe operation of the Aliso Canyon storage facility and investigation of alternatives that could be pursued to reduce or eliminate the need for Aliso Canyon while maintaining energy and electric reliability and just and reasonable rates for the Southern California region. The Commission

anticipates that this will be a two-phase proceeding. The preliminary scope of issues and schedule are set forth below. The scope and schedule may be changed by the assigned Commissioner's Scoping Memo. (See Rule 7.3 of the Commission's Rules of Practice and Procedure (Rules)).

2.1. Phase 1 Scope

In Phase 1, the Commission anticipates undertaking a thorough analysis of whether it is feasible to reduce or eliminate the use of Aliso Canyon while still maintaining electric and gas reliability for the region. The determination will include an assessment of the impact of reducing or eliminating the use of the Aliso Canyon facility on rates. This analysis will be overseen by the Commission's Energy Division and assisted by appropriately contracted experts if necessary. The Commission anticipates that the scope of the analysis will be developed with participation of the parties in workshops. Parties will be provided an opportunity for comments on the scope of the analysis developed through workshops, and these comments will be part of the record in the proceeding. Parties will have the opportunity to provide feedback as the analysis progresses on an ongoing basis through Energy Division-led workshops and solicitation of comments. The results of the analysis will be adopted into the record through a ruling concluding Phase 1. The preliminary issues the Commission anticipates in the Phase 1 analysis are set forth below:

- (1) What will be the impact on electric and gas reliability and energy costs if the use of Aliso Canyon facility is eliminated?
- (2) If elimination of the use of the Aliso Canyon facility would jeopardize reliability, are there reduced levels of use of the facility that would not negatively impact reliability?
- (3) In making these determinations, the Commission will consider the following:

- a. Impact on natural gas reliability at both the system-wide and local level in the short run (next five years);
- b. Impact on natural gas reliability at both the system-wide and local level over the long run (after five years);
- c. Alternatives to natural gas storage at Aliso Canyon to meet systemwide and local needs, including other means of storing natural gas and programs that could reduce the overall demand for natural gas (the Commission will seek input on the appropriate range of alternatives that should be considered);
- d. Impact on just and reasonable rates for natural gas service as a result of reducing or eliminating the use or capabilities of Aliso Canyon;
- e. Safety implications within the Commission's jurisdiction associated with the continued operation of Aliso Canyon;
- f. Consistency of any determination on the usage of Aliso Canyon with the Clean Energy and Pollution Reduction Act of 2015¹ and SB 32;²
- g. Any other legal issues or facts necessary to make a determination on the impacts of the partial or full elimination of Aliso Canyon, including, but not limited to, potential changes to federal rules and regulations.

Energy Division will take into account all relevant information in undertaking this study within the timeframe ultimately adopted by the Commission, including its own ongoing reporting under Pub. Util. Code § 715 and the results of the study ordered in SB 826 (to the extent that report is finished

¹ The Clean Energy and Pollution Reduction Act of 2015 codifies SB 350, which directs, among other actions, the Commission to increase the amount of renewable electricity generated and sold to retail customers per year to 50% by December 31, 2030.

² SB 380 requires that the Commission's consideration of the continued operation of Aliso Canyon also analyze consistency with Executive Order B-30-2015, which sought to reduce greenhouse gas emissions in the State of California to 40 percent below 1990 levels by 2030. SB 32 (stats 2016, ch. 249) codifies this mandate.

and able to be incorporated in the Energy Division study before conclusion of Phase 1.)³

2.2. Phase 2 Scope

In Phase 2, the Commission will take into consideration the results of the Phase 1 analysis, along with all other relevant information, including the results of the SB 826 study, and answer the following question:

Should the Commission reduce or eliminate the use of the Aliso Canyon storage facility, and if so, under what conditions and parameters and in what time frame?

The Commission, in making the above determination, will consider electric and natural gas reliability at the state and local levels, the impact on just and reasonable rates, safety implications, and achieving the mandates of SB 32.

The assigned Commissioner and Administrative Law Judge (ALJ) will convene a prehearing conference upon completion of Phase 1 to determine the full scope and schedule of Phase 2.

2.3. Issues Out of Scope

The issues involving the Aliso Canyon gas leak are complex, and this Commission and multiple other agencies have or will undertake various actions

³ Stats 2016, ch 23. The legislation, in relevant portion, states "\$2,500,000 shall be allocated for a contract with the California Council on Science and Technology to conduct an independent study. The Public Utilities Commission, in consultation with the State Energy Resources Conservation and Development Commission, the State Air Resources Board, and the Division of Oil, Gas, and Geothermal Resources within the Department of Conservation, shall request the California Council on Science and Technology to undertake a study in accordance with Provision 14 of the Governor's Proclamation of a State Emergency issued on January 6, 2016. The study shall... assess the long-term viability of natural gas storage facilities in California. Specifically, the study shall address operational safety and potential health risks, methane emissions, supply reliability for gas and electricity demand in the state, and the role of storage facilities and natural gas infrastructure in the state's long-term greenhouse gas reduction strategies. The study shall be completed by December 31, 2017."

to address the many facets of the leak. As such, it is useful to note particular issues that are outside the scope of this proceeding.

- (1) Air quality concerns or impacts, with the exception of the impact of the Aliso Canyon facility on meeting SB 32 mandates.
- (2) Any issues related to the cause of the natural gas leak or issues of culpability.
- (3) Any costs associated with discovery, damage and resolution of the natural gas leak, including who will bear responsibility for those costs.
- (4) Acute public health concerns as a result of the Aliso Canyon gas leak.
- (5) Any and all other issues outside of the jurisdiction of the Commission or that are or will be addressed through other Commission actions or proceedings.

2.4. Schedule

The preliminary Phase 1 schedule is set forth below. It is unclear whether testimony will be required to resolve Phase 1; however the Commission anticipates the need to gather evidence to resolve disputed issues of fact in Phase 2. A final schedule will be adopted in the Assigned Commissioner's Scoping Memo in this case. The schedule may be modified by written ruling by the assigned ALJ or the assigned Commissioner.

| Item | Date |
|--|--|
| Responses to the OII | Thirty days after adoption by the Commission |
| Prehearing Conference | Within 30 days of receipt of responses |
| Public Participation Hearings | March-July 2017 (multiple hearings may be scheduled) |
| Scoping Memo | Within 30 days of prehearing conference |
| Workshop to determine scope of Phase 1 Study | Summer 2017 |
| Ruling setting scope of Phase 1 study and schedule | Summer 2017 |
| Opening and reply comments on Phase 1 study scope and schedule | Late Summer 2017 |
| Workshops on Phase 1 Study | Winter 2017-2018 |
| Incorporation of Phase 1 study into the record and initiation of Phase 2 | First Half of 2018 |

Pursuant to the authorization conferred by Pub. Util. Code § 1701.5(b), Phase 1 and Phase 2 of this proceeding should extend for 24 months beyond the date of this OII. The OII presents many complex issues and may require extensive coordination across multiple agencies. It is therefore reasonable to adopt a 24-month time frame for this proceeding.

3. Responses to the OII and Party Status

Southern California Gas Company, at 555 West 5th Street, GT14E7, Los Angeles, CA 90013, is a respondent to this OII. Other entities interested in participating in this OII may file a response to the preliminary scope, schedule and need for hearing determination within 30 days of adoption of this OII by the Commission. Entities that file responses will be granted party status.

4. Coordination with Other Agencies and Entities

Pursuant to the direction in SB 380, the Commission will consult with the State Energy Resources Conservation and Development Commission, the Independent System Operator, the local publicly owned utilities that rely on natural gas for electricity generation, DOGGR, affected balancing authorities and any other relevant government agency when making its determinations in this proceeding.

5. Category and *Ex Parte* Communications

The proceeding is categorized as ratesetting. Pursuant to Rule 7.1(c); this determination is appealable under the procedures in Rule 7.6. *Ex parte* communications are governed by Pub. Util. Code § 1701.1 et seq. and Article 8 of the Commission's Rules of Practice and Procedure. Communication with the assigned ALJ shall occur either through formal filing or via written e-mail to the entire service list of this proceeding.

6. Need for Hearings

Pursuant to Rule 7.1(c), it is preliminarily determined that hearings will be needed in this proceeding. A final determination on the need for hearings will be made in the assigned Commissioner's Scoping Memo.

7. Notice and Distribution of OII

In the interest of broad notice, this OII will be served on the official service lists for the following dockets:

Rulemaking 13-09-011, Order Instituting Rulemaking to Enhance the Role of Demand Response in Meeting the State's Resource Planning Needs and Operational Requirements.

Application 14-12-017, Triennial Cost Allocation Proceeding Phase 1 Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U902G) for Authority to Revise their Natural Gas Rates Effective January 1, 2016.

Application 15-07-014, 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 15-06-020, Application of Southern California Gas Company (U904G) and San Diego Gas & Electric Company (U902G) for Authority to Revise their Curtailment Procedures.

Application 15-05-002 et al., Application of Southern California Gas Company (U904G) for Review of its Safety Model Assessment Proceeding Pursuant to Decision 14-12-025.

Service of this OII does not confer party status or place a person or organization that has received such service on the Official Service List for this proceeding, except as otherwise noted (SoCalGas as respondent is automatically a party; entities that file responses to the OII will be conferred party status). To be placed on the service list, persons or entities should follow the instructions in Section 8, below.

8. Addition to the Official Service List

Additions to the official service list shall be governed by Rule 1.9(f).

Persons who file responsive comments to the OII will become parties to this proceeding and will be added to the “Parties” category of the official service list upon such filing. *In order to assure service of comments and other documents and correspondence in advance of obtaining party status, persons should promptly request addition to the “Information Only” category as described below.* They will be removed from that category upon obtaining party status.

Any person will be added to the “Information Only” category of the official service list upon request and will receive electronic service of all documents in the proceeding. Interested entities should request to be added to the service list promptly to ensure timely service of comments and other

documents and correspondence in the proceeding. (*See* Rule 1.9(f).) The request must be sent to the Process Office by e-mail (process_office@cpuc.ca.gov) or letter (Process Office, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California 94102). Please include the Docket number of this investigation in the request.

9. Subscription Service

Persons may monitor the proceeding by subscribing to receive electronic copies of documents in this proceeding that are published on the Commission's website. There is no need to be on the official service list in order to use the subscription service. Instructions for enrolling in the subscription service are available on the Commission's website at <http://subscribecpuc.cpuc.ca.gov/>.

10. Filing and Service of Comments and Other Documents

Filing and service of comments and other documents in this proceeding are governed by the rules contained in article 1 of the Commission's Rules of Practice and Procedure. (*See* particularly Rules 1.5 through 1.10 and 1.13.) If you have questions about the Commission's filing and service procedures, contact the Docket Office (Docket_Office@cpuc.ca.gov) or check the Practitioner's Page on our website at www.cpuc.ca.gov.

11. Public Advisor

Any person or entity interested in participating in this Rulemaking who is unfamiliar with the Commission's procedures should contact the Commission's Public Advisor in San Francisco at (415) 703-2074 or (866) 849-8390 or e-mail public.advisor@cpuc.ca.gov. The TYY number is (866) 836-7825.

12. Intervenor Compensation

Any party that expects to claim intervenor compensation for its participation in this Investigation must file its notice of intent to claim intervenor compensation within 30 days of the filing of a response to the OIL, except that notice may also be filed within 30 days of the prehearing conference. Intervenor compensation rules are governed by § 1801 et seq. of the Public Utilities Code. Parties new to participating in Commission proceedings may contact the Public Advisor's office for assistance. Contact information is set forth in Section 11, above.

IT IS ORDERED that:

1. The Commission institutes this investigation on its own motion to comply with the requirements of Senate Bill 380 (Statutes of 2016, Chapter 14). The purpose of this investigation is to determine the feasibility of minimizing or eliminating the use of the Aliso Canyon Natural Gas Storage Facility while maintaining energy and electric reliability. The preliminary scope and schedule are set forth herein.
2. Southern California Gas Company at 555 West 5th Street, GT14E7, Los Angeles, CA 90013, is named as a respondent to this investigation.
3. Pursuant to the authorization conferred by Public Utilities Code Section 1701.5(b), this Order Instituting Investigation adopts a 24-month time frame.
4. Responses to the preliminary scope, schedule and determination on the need for hearings are due 30 days after the Commission adopts this Order Instituting Investigation.
5. Any entity that submits a response or reply will be conferred party status in this proceeding.

6. This Order Instituting Investigation is classified as ratesetting. Pursuant to Rule 7.1(c) of the Commission's Rules of Practice and Procedure (Rules), this determination is final but appealable under the procedures in Rule 7.6.

7. This Order Instituting Investigation preliminarily determines that hearings will be needed.

8. The Executive Director shall cause this Order Instituting Investigation to be served on the following service lists:

Rulemaking 13-09-011, Order Instituting Rulemaking to Enhance the Role of Demand Response in Meeting the State's Resource Planning Needs and Operational Requirements.

Application 14-12-017, Triennial Cost Allocation Proceeding Phase 1 Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U902G) for Authority to Revise their Natural Gas Rates Effective January 1, 2016.

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Application 15-05-002 et al., Application of Southern California Gas Company (U904G) for Review of its Safety Model Assessment Proceeding Pursuant to Decision 14-12-025.

9. *Ex Parte* communications in this investigation are governed by Public Utilities Code Section 1701.1 et seq. and Article 8 of the Commission's Rules of Practice and Procedure. Communications with the assigned Administrative Law Judge shall occur either through formal filing or via e-mail written to the entire service list in this proceeding.

10. The assigned Administrative Law Judge shall set a Prehearing Conference and Public Participation Hearings in this proceeding as soon as practicable after the receipt of responses to the Order Instituting Investigation. The assigned Commissioner or Administrative Law Judge may adjust the schedule or scope identified herein as needed to promote the efficient and fair resolution of this investigation.

11. A party that expects to request intervenor compensation for its participation in this proceeding must file its notice of intent to claim intervenor compensation within 30 days of the filing of a response, except that notice may be filed within 30 days of a prehearing conference in the event that one is held (*See* Rule 17.1(a)(2) of the Commission's Rules of Practice and Procedure).

This order is effective today.

Dated February 9, 2017, at San Francisco, California.

MICHAEL PICKER

President

CARLA J. PETERMAN

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

Commissioners