

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**10/16/20
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October 16, 2020

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Ratesetting

TO PARTIES OF RECORD IN INVESTIGATION 17-02-002:

This is the proposed decision of Administrative Law Judge Zhen Zhang. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's November 19, 2020 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ ANNE E. SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:lil

Attachment

Decision PROPOSED DECISION OF ALJ ZHANG (Mailed 10/16/2020)

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.

Investigation 17-02-002

DECISION SETTING THE INTERIM RANGE OF ALISO CANYON STORAGE CAPACITY AT ZERO TO 34 BILLION CUBIC FEET**Summary**

In response to *Administrative Law Judge's Ruling Entering into the Record Direction to Maintain Aliso Canyon Storage Capacity at or Below the Interim Level of 34 Billion Cubic Feet and Requesting Comments*, issued on August 26, 2020, the majority of the comments recommended that the maximum storage capacity at the Aliso Canyon Natural Gas Storage Facility be set at 68.6 billion cubic feet. One party recommended closing Aliso Canyon Natural Gas Storage Facility immediately. Because the current interim level of 34 billion cubic feet is based upon five detailed reports that chronicled Aliso Canyon Natural Gas Storage Facility's safety and reliability requirements since 2017, and a new level will be determined shortly based on the extensive work in Phase 2 of this instant

proceeding, it is inappropriate to change the interim storage capacity to 68.6 billion cubic feet at this time.

1. Background

Senate Bill (SB) 380 (Statutes of 2016, Chapter 14) tasked the Commission with determining the range of working gas necessary at the Aliso Canyon Natural Gas Storage Facility (Aliso Canyon) to ensure safety and reliability for the region and just and reasonable rates in California.¹ SB 380 was codified in the Public Utilities Code (Pub. Util. Code) as Section 714 and Section 715. Pub. Util. Code § 715(d) instructs the Executive Director of the California Public Utilities Commission (Commission), in consultation with the State Oil and Gas Supervisor, to direct the operator of Aliso Canyon to maintain a specified range of working gas in the storage field.²

As instructed by Pub. Util. Code § 714, the Commission opened Investigation (I.) 17-02-002 on February 9, 2017 to determine the feasibility of minimizing or eliminating the use of Aliso Canyon while maintaining energy and electric reliability for the Los Angeles region at just and reasonable rates.³ The Commission has always anticipated that the interim range of working gas for Aliso Canyon set by the Executive Director will be superseded by a determination in this instant proceeding.

Between 2017 and 2018, based on five reports (715 Reports) evaluating the range of working gas necessary at Aliso Canyon, the Commission's Executive

¹ Senate Bill 380(2) (stating "...the commission, in consultation with specific entities, to determine the range of working gas necessary to ensure safety and reliability for the region and just and reasonable rates in California...")

² The Division of Oil, Gas, and Geothermal Resources is now the Geologic Energy Management Division.

³ Pub. Util. Code § 714.

Director instructed Southern California Gas Company (SoCalGas) to maintain the inventory range at or below specified interim levels.⁴ The fifth and most recent report was published on July 2, 2018.⁵

Attached to the July 2018 report was a letter from the Executive Director ordering SoCalGas to maintain the working gas inventory at Aliso Canyon between zero billion cubic feet (Bcf) and 34 Bcf.⁶ The July 2, 2018 letter explained that up to 34 Bcf of working gas inventory was necessary due to 1) the need to respond to continuing pipeline outages on the SoCalGas system; 2) consideration of the impact that declining inventory at the non-Aliso Canyon storage fields over the course of the winter has on their withdrawal capacity; 3) an examination of whether monthly 1-in-10 peak day demand can be met with forecasted storage inventory levels; and 4) limited injection capacity at the non-Aliso Canyon storage fields, which makes it difficult to inject gas into storage.⁷ The letter concluded that the interim storage range will be superseded by a determination in this instant proceeding.⁸

⁴ The "715 Reports" are available at <https://www.cpuc.ca.gov/General.aspx?id=6442457392>.

⁵ Aliso Canyon Working Gas Inventory, Production Capacity, Injection Capacity, and Well Availability for Reliability, Jul. 6, 2018, available at https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/715_Report_Summer2018_Final.pdf. Although the July 6, 2018 report was released on July 2, 2018, it is accompanied by a July 6, 2018 update that includes comments erroneously omitted.

⁶ California Public Utilities Commission letter to Southern California Gas Company, July 2, 2018, at 1, available at https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/7-2-18_Ltr%20To%20Rodger%20Schwecke%20re.%20Aliso%20Canyon%20Gas%20Storage%20Facility.pdf.

⁷ *Id.*

⁸ *Id.*

To address the expiration of Section 715 on January 1, 2021, the assigned Administrative Law Judge (ALJ) entered into the record the 715 Reports and letters discussed above regarding the necessary range of working gas at Aliso Canyon and requested comments from the parties.⁹ On September 8, 2020, the parties filed opening comments. On September 15, 2020, the parties filed reply comments.

2. Summary of Comments

SoCalGas submits that the interim gas storage level should be 68.6 Bcf, the level deemed safe by the Department of Conservation's California Geologic Management Division (CalGEM), previously named the Division of Oil, Gas and Geothermal Resources.¹⁰ SoCalGas explains that the higher limit would mitigate price volatility and promote reliability by maximizing injection ability in preparation for the winter season.¹¹ SoCalGas argues that eliminating the Aliso Canyon Withdrawal Protocol would mitigate price volatility and promote reliability.¹² However, SoCalGas notes that even if a higher maximum storage level is set for 2021, SoCalGas faces difficulties in increasing the gas in storage between the peak months from December through February.¹³ During December through February, because customer demand usually exceeds supply and Aliso

⁹ Administrative Law Judge's Ruling Entering into the Record Direction to Maintain Aliso Canyon Storage Capacity at or Below the Interim Level of 34 Billion Cubic Feet and Requesting Comments, Aug. 26, 2020, Attachments 1 to 8.

¹⁰ Opening Comments of Southern California Gas Company (U 904 G) to Administrative Law Judge's Ruling Entering into the Record Direction to Maintain Aliso Canyon Storage Capacity at or Below the Interim Level of 34 Billion Cubic Feet and Requesting Comment, Sept. 10, 2020, at 2 - 3.

¹¹ *Id.* at 3.

¹² *Id.*

¹³ *Id.* at 4.

Canyon is used for withdrawals to meet that demand, injection into the facility is not possible.¹⁴

The Utility Reform Network (TURN) recommends that the limit be increased to 68.6 Bcf because a higher limit would result in avoiding gas commodity price spikes.¹⁵ TURN states that although customer have paid, and are paying, for infrastructure upgrades at Aliso Canyon, customers have not received the full benefits of Aliso Canyon.¹⁶ According to TURN, restrictions on Aliso Canyon have caused the suspension of the unbundled gas storage program, which previously enabled electric generators to manage their gas costs.¹⁷ Similar to SoCalGas, TURN recommends lifting the Aliso Canyon Withdrawal Protocol.¹⁸

Southern California Publicly Owned Utilities (SCPOU) comments that the maximum working gas inventory should be increased to 68.6 Bcf in order to enable SoCalGas to provide reliable service and unbundled noncore storage.¹⁹ SCPOU agrees with TURN that removing restrictions on Aliso Canyon is important to accommodating peak electric generation demand in the summer and peak core demand in the winter.²⁰ SCPOU asserts that there is concern regarding the SoCalGas system's ability to support 1-in-10 peak day demand in

¹⁴ *Id.*

¹⁵ Comments of the Utility Reform Network in Response to the August 26, 2020 ALJ Ruling, September 8, 2020, at 1.

¹⁶ *Id.* at 2.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ Southern California Publicly Owned Utilities Comments on Aliso Canyon Interim Storage Level, September 10, 2020, at 2 - 3.

²⁰ *Id.* at 7.

the winter. SCPOU states that with a higher maximum working gas level, SoCalGas would be closer to meeting the winter 1-in-10 peak forecasts.²¹

Indicated Shippers recommends adopting CalGEM's determination that Aliso Canyon is safe to operate at 68.6 Bcf.²² They suggest that the increased capacity at Aliso Canyon would relieve SoCalGas Citygate price increases, which would be consistent with the Commission's interest in improving short-term reliability and price stability.²³ Indicated Shippers note that given the recent heatwaves in August and early September, it is important to allow key natural gas resources to be available.²⁴

Protect Our Communities Foundation (POC) recommends that Aliso Canyon does not require an interim storage level above zero because Aliso Canyon is unnecessary for reliability.²⁵ They contends that Aliso Canyon is unsafe, unreliable and a financial burden to ratepayers.²⁶ POC disagrees with the Energy Division's assumptions and inputs in the reliability analysis. POC proposes alternative inputs which suggest no need for Aliso Canyon.²⁷ POC

²¹ *Id.* at 5 - 6.

²² Opening Comments by the Indicated Shippers to Administrative Law Judge's Ruling Entering into the record to maintain Also Canyon Storage Capacity at or below the Interim Level of 34 Billion Cubic Feet and Requesting Comment, September 10, 2020, at 2 - 3.

²³ *Id.* at 5.

²⁴ *Id.* at 6 - 7.

²⁵ The Protect Our Communities Foundation Comments on the Administrative Law Judge's Ruling Entering into the Record Direction to Maintain Aliso Canyon Storage Capacity at or Below the Interim Level of 34 Billion Cubic Feet and Requesting Comment, September 10, 2020, at 2 - 3.

²⁶ *Id.* at 4, 18.

²⁷ *Id.* at 5 - 8.

states closing Aliso Canyon as soon as possible would assist with the Governor's carbon neutrality directive B-55-18 and Health and Safety Code Section 38566.²⁸

In reply comments, SoCalGas disputes POC's assumptions and its projected cost savings if Aliso Canyon is closed.²⁹ Indicated Shippers disagrees with POC regarding modelling assumptions, that Aliso Canyon is unnecessary for reliability, and that using Aliso Canyon increases cost.³⁰ Both SoCalGas and Indicated Shippers note that a majority of the parties support increasing the range of working gas to 68.6 Bcf.³¹

In response to SoCalGas' comment regarding the additional gas necessary for winter reliability, POC's reply comments state that increasing Lines 235 and 4000 to rated operating pressure would provide the necessary additional gas.³²

²⁸ *Id.* at 3.

²⁹ Reply Comments of Southern California Gas Company (U 904 G) to Administrative Law Judge's Ruling Entering into the Record Direction to Maintain Aliso Canyon Storage Capacity at or Below the Interim Level of 34 Billion Cubic Feet and Requesting Comment, September 15, 2020, at 3 - 8.

³⁰ Reply Comments by Indicated Shippers to Administrative Law Judge's Ruling entering into the Record Direction to Maintain Aliso Canyon Storage Capacity at or Below the Interim Level of 34 Billion Cubic Feet and Requesting Comment, September 15, 2020, at 5 - 10.

³¹ Reply Comments of Southern California Gas Company (U 904 G) to Administrative Law Judge's Ruling Entering into the Record Direction to Maintain Aliso Canyon Storage Capacity at or Below the Interim Level of 34 Billion Cubic Feet and Requesting Comment, September 15, 2020, at 1 - 3; Reply Comments by Indicated Shippers to Administrative Law Judge's Ruling entering into the Record Direction to Maintain Aliso Canyon Storage Capacity at or Below the Interim Level of 34 Billion Cubic Feet and Requesting Comment, September 15, 2020, at 3.

³² The Protect Our Communities Foundation Reply Comments on the Administrative Law Judge's Ruling Entering into the Record Direction to Maintain Aliso Canyon Storage Capacity at or Below the Interim Level of 34 Billion Cubic Feet and Requesting Comments, September 15, 2020, at 6 - 8.

POC asserts conditions that led to the 34 Bcf limit have changed as demand for natural gas has decreased and other resources are replacing gas.³³

3. Discussion

3.1. Setting the Interim Level Between Zero and 34 Bcf Is Appropriate

Although the majority of the parties commenting argue that the interim storage inventory level should be set at 68.6 Bcf, we find that changing the current interim level is inappropriate at this time.

The 34 Bcf level is based on the most recent 715 Report, which concluded in July 2018 that an increase in the maximum allowable level from 24.6 to 34 Bcf was necessary. Building on previous reports, the July 2018 report examined whether monthly 1-in-10 peak day demand could be met with forecasted storage inventory levels.³⁴ The report's scenario analysis identified difficulties if the limit was not raised and recommended that increasing the limit to 34 Bcf would preserve reliability and reasonable rates while complying with the spirit of SB 380, which sought to minimize use of Aliso Canyon.

The current work being finalized in Phase 2 of this proceeding expands on the work done in the 2018 report. During the summer of this year, the Commission's Energy Division conducted a public workshop where the Energy Division and Los Alamos National Laboratory presented production cost modeling results and 1-in-10 hydraulic modeling results to better understand how Aliso Canyon impacts the reliability of the region. On October 15, 2020, the Energy Division presented hydraulic modeling results from the 1-in-35 extreme

³³ *Id.* at 12 – 13.

³⁴ July 2, 2018 715 Report, available at https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/715_Report_Summer2018_Final.pdf.

peak demand scenarios and additional 1-in-10 sensitivities. These results provide more clarity on the impact of minimizing or eliminating Aliso Canyon on electric and gas system reliability. Phase 3 is concurrently assessing longer-term solutions for eliminating and replacing the services provided by the Aliso Canyon gas storage facility.

While these analyses are ongoing, the most recent 715 Report from July of 2018 provides a clear interim storage level recommendation. Commenters both in favor of increasing the storage level to 68.6 Bcf, and in favor of closing the facility entirely, made references to this report. Those advocating an increased storage level cited the concerns in the 715 Report but did not indicate why those concerns are greater now than they were when that report was written. POC, the commenter advocating facility closure, provided a more detailed analysis, but this analysis appears to rely on increasing pipeline pressures well beyond their current levels, a scenario unlikely to occur during the time period the interim capacity level will be in place.

Therefore, the existing interim level is appropriate until another level is set based on the additional information that will be considered in this proceeding once production cost and hydraulic modeling is completed. Phase 2, which will conclude in early 2021, will provide additional relevant analysis and could include reconsideration of the maximum allowable inventory at Aliso Canyon.

3.2. It Is Inappropriate to Address the Aliso Canyon Withdrawal Protocol and the Unbundled Storage Program in This Decision

This decision addresses only the immediate issue of the appropriate interim level of storage at Aliso Canyon upon expiration of Pub. Util. Code § 715 on January 1, 2021. Accordingly, this decision retains the current interim inventory level for the Aliso Canyon storage field and leaves the related

processes and procedures in place while we continue work in Phase 2 and Phase 3 of this proceeding.

It is inappropriate to consider modifications to the Withdrawal protocol at this time without a more thorough record developed regarding the amount of gas needed in the Aliso Canyon facility. That work may include further analysis and a modification of the Withdrawal Protocol. In the interim, however, until there is an opportunity to more fully incorporate the 2018 assessment and information obtained in the intervening years, the amount of gas in storage should remain 34 Bcf.

Several commenters brought up the Unbundled Storage Program, its use by non-core customers, including electric generators, and the impact limiting use of Aliso Canyon has had on the Program. The previously determined baseline assumption/consideration for reliability in this proceeding does not consider the future of the Unbundled Storage Program.³⁵ Similar to the Withdrawal Protocol, it is not appropriate to modify the Unbundled Storage Program at this time as program details may require further review in this proceeding.

4. Comments on the Proposed Decision

The proposed decision of Administrative Law Judge Zhang in this matter was mailed to the parties in accordance with Section 311(d) of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____.

³⁵ See D.20-02-045, Appendix A, available at <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M328/K301/328301730.pdf>.

5. Assignment of Proceeding

Liane M. Randolph is assigned Commissioner and Administrative Law Judge Zhen Zhang is assigned Judge for this proceeding.

Findings of Fact

1. The July 2, 2018 Executive Director letter ordering Southern California Gas Company to maintain the interim working gas inventory at the Aliso Canyon Natural Gas Storage Facility between zero billion cubic feet and 34 billion cubic feet is supported by the July 2018 report titled *Aliso Canyon Working Gas Inventory, Production Capacity, Injection Capacity, and Well Availability for Reliability*.
2. On January 1, 2021, Public Utilities Code Section 715(d), which requires the Executive Director to order Southern California Gas Company to set the interim working gas inventory at Aliso Canyon Natural Gas Facility, will expire.
3. Ongoing modeling and analysis in Phase 2 of this instant proceeding will inform the new maximum storage capacity at the Aliso Canyon Natural Gas Storage Facility.
4. A new maximum storage capacity at the Aliso Canyon Natural Gas Storage Facility will be determined in Phase 2 of this instant proceeding based on the modeling and analysis currently nearing completion.
5. Until a new maximum storage capacity at the Aliso Canyon Natural Gas Storage Facility is determined in this proceeding, it is appropriate to maintain the interim level at 34 billion cubic feet.

Conclusion of Law

1. Upon expiration of Public Utilities Code Section 715(d), the interim storage level at the Aliso Canyon Natural Gas Storage Facility should continue to be 34 billion cubic feet.

O R D E R

IT IS ORDERED that:

- 1 The interim range of working gas at the Aliso Canyon Natural Gas Storage Facility is between zero and 34 billion cubic feet.
2. The interim range will be replaced by a new determination with the completion of Phase 2 of this instant proceeding.
3. Investigation 17-02-002 remains open.

This order is effective today.

Dated _____, at San Francisco, California.