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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

**ASSIGNED COMMISSIONER'S AMENDED PHASE 2
AND PHASE 3 SCOPING MEMO AND RULING**

Summary

Pursuant to Public Utilities Code Section 1701. and Article 7 of the Commission's Rules of Practice and Procedure, this Scoping Memo clarifies the connection between the issues of Phase 2 and Phase 3 and amends the scope of Phase 3 of Investigation (I.) 17-02-002. In order to provide an adequate record as a basis for the Commission to take appropriate actions regarding the disposition of the Aliso Canyon Natural Gas Storage Facility, as a result of its findings and conclusions, this Scoping Memo amends Phase 3 to add new issues. Lastly, this Scoping Memo updates the upcoming events of Phase 2 and Phase 3.

1. Procedural Background

On February 9, 2017, the California Public Utilities Commission (Commission) opened I.17-02-002 pursuant to Senate Bill (SB) 380.¹ SB 380 was

¹ Stats. of 2016, ch. 14.

codified in the Public Utilities (Pub. Util.) Code Section 714 and Section 715. The purpose of the investigation was to determine the feasibility of reducing or eliminating the use of Aliso Canyon Natural Gas Storage Facility (Aliso Canyon), owned and operated by Southern California Gas Company (SoCalGas), while maintaining energy and electric reliability for the Los Angeles region at just and reasonable rates.

Since the initiation of this proceeding in 2017, the Scenarios Framework adopted in Phase 1 has guided the analysis of the impacts to system reliability and electric and gas rates of reducing or eliminating the use of Aliso Canyon.² On March 29, 2019, the Phase 2 scoping memo outlined the analysis to be performed by Energy Division based on the Scenarios Framework.³ Subsequently, two reports were entered into the record: Energy Division's Economic Analysis Report (Economic Analysis Report)⁴ and Energy Division's Modeling Report (Modeling Report).⁵ Parties filed opening comments to the Economic Analysis Report on November 16, 2020 and reply comments on November 23, 2020. Parties filed opening comments on the Modeling Report on March 19, 2021 and reply comments on April 5, 2021. At the February 22, 2021 prehearing conference (PHC) and at the April 30, 2021 status conference, the parties discussed additional modeling they would like Energy Division to

² Assigned Commissioner and Administrative Law Judge's Ruling Adopting Scenarios Framework and Closing Phase 1 of Investigation 17-02-002, Jan. 4, 2019; Administrative Law Judge's Ruling Entering int Record Updated Scenarios Framework, Jan. 14, 2019.

³ Assigned Commissioner's Phase 2 Scoping Memo and Ruling (Scoping Memo), Mar. 29, 2019.

⁴ Administrative Law Judge's Ruling Entering into the Record Energy Division's Economic Analysis Report, Requesting Comment, Nov. 2, 2020.

⁵ Administrative Law Judge's Ruling on Confidentiality Claims by Southern California Gas Company Regarding Information in the Energy Division's Modeling Report, Requesting Comments on the Energy Division's Modeling Report, Mar. 8, 2021.

conduct, possible disputes of material fact, the need for written testimony and hearings, and the schedule for Phase 2. The goal of the April 30, 2021 status conference was to finalize a schedule to complete Phase 2 of the proceeding.

Phase 3 was initiated with the purpose of engaging an expert consultant to develop portfolios that could be implemented to entirely replace Aliso Canyon.⁶ The expert consultants, FTI Consulting, Inc. (FTI) and Gas Supply Consulting (GSC), have conducted two workshops. The parties submitted informal comments on Workshop 1, held on November 17, 2020. The parties filed opening and reply comments on Workshop 2, held on March 30, 2021. The consultants will hold two more workshops before they finalize findings in a report.

In November 2020, the Commission set the interim maximum storage capacity at Aliso Canyon at 34 billion cubic feet (Bcf) pending the release of further study by Energy Division.⁷ In January 2021, the Energy Division completed its analysis and addressed the storage capacity in its Modeling Report.⁸

2. Phase 2 and Phase 3 Issues

The issues in Phase 2 previously identified in the March 29, 2019 Scoping Memo are as follows:

1. What are the impacts to system reliability and on electric and gas rates of reducing or eliminating the use of the Aliso Canyon Gas Storage Facility; and
2. Given the results of Question #1, should the Commission authorize the reduction or elimination of the use of the

⁶ Assigned Commissioner's Phase 3 Scoping Memo and Ruling, Dec. 20, 2019.

⁷ Decision (D.) 20-11-044.

⁸ Administrative Law Judge's Ruling on Confidentiality Claims by Southern California Gas Company Regarding Information in the Energy Division's Modeling Report, Requesting Comments on the Energy Division's Modeling Report, Mar. 8, 2021.

Aliso Canyon Natural Gas Storage Facility, and if so, under what timeframe and parameters?

- a. In making this determination, the Commission will consider the following factors: the safety of the Aliso Canyon facility, reliability of the electric and gas system, the provision of utility electric and gas service at reasonable rates, and the results of the SB 826⁹ study as well as how any decision comports with the Clean Energy and Pollution Reduction Act of 2015 and SB 32.¹⁰

With the issuance of the Phase 2 Scoping Memo, the Commission anticipated opening Phase 3 to “analyze potential system changes and how such changes would impact the need for Aliso” after Energy Division finished its studies on rates and reliability.¹¹ The Commission accelerated the initiation of Phase 3, before the studies and reports were completed, due to the Governor’s request that the Commission expedite planning to permanently close Aliso Canyon and to engage a third-party expert consultant to identify viable alternatives to the facility.¹² The Phase 3 Scoping Memo was issued on December 20, 2019 and identified the issues as follows:

1. How can the services presently provided by the Aliso Canyon field be met if the field were to be eliminated within the two planning horizons of 2027 and 2045?
 - a. Scenarios analysis may include any mix of the following, in addition to other solutions: demand reduction and demand management programs that reduce demand incrementally beyond programs

⁹ Stats. of 2016, ch. 25.

¹⁰ Stats. of 2015, ch. 547; Stats. of 2016, ch. 249. Assigned Commissioner’s Phase 2 Scoping Memo and Ruling, Mar. 29, 2019, at 2 – 3.

¹¹ Assigned Commissioner’s Phase 2 Scoping Memo and Ruling, Mar. 29, 2019, at 3 – 4.

¹² Letter From Office of the Governor to President Batjer of the California Public Utilities Commission, Nov. 18, 2019, affixed as Attachment 1.

presently in place and/or assumed in the demand forecast; replacement of gas transmission pipelines or the construction of new gas transmission pipelines; and replacement electric generation resources that are carbon neutral or act to integrate renewable energy. Additional detail about the assumptions that may form part of this analysis is included in Appendix A.¹³

Phase 3 includes the Governor's request that the Commission engage a third-party expert consultant to identify viable alternatives to replace Aliso Canyon. The expert consultants, FTI and GSC, have determined that 2027 and 2035 are the appropriate planning horizons. FTI and GSC have conducted two workshops and presented four portfolios that might replace Aliso Canyon in the 2027 and 2035 planning horizons. The four portfolios are:

1. Gas Transmission: investments to repair/upgrade the gas infrastructure.
2. Demand Reduction: investments to reduce gas demand, including building electrification and energy efficiency.
3. Integrated Resource Plan Mix: investments to increase electricity resources in proportion to those being built per the Integrated Resource Plan process, including solar, other generation, electricity demand response and electricity storage.
4. Electric Transmission: investments to electric transmission capability into or within California.

The parties have submitted informal and formal comments to the workshop materials. After preliminary results of these four portfolios, FTI will analyze a fifth option that combines the best of the first four, and the Commission may consider additional options. Also, a workshop focusing on the local electricity

¹³ Assigned Commissioner's Phase 3 Scoping Memo and Ruling, Dec. 20, 2019, at 3 - 4.

reliability considerations raised by the potential of replacing or closing Aliso Canyon will take place on July 9, 2021 as part of this proceeding and within the California Energy Commission's Integrated Energy Policy Report (IEPR) 2021 update workshop series.

At the February 22, 2021 prehearing conference and at the April 30, 2021 status conference, the parties pointed to the link between Question #2 of Phase 2 (whether the Commission should authorize the reduction or closure of Aliso Canyon) with Phase 3 (the study of portfolios to replace the services provided by Aliso Canyon). Parties commented that the question of whether the use of Aliso Canyon should be reduced or eliminated overlapped with the question in Phase 3, meaning that the analysis in Phase 3 would inform the conclusion in Phase 2. Southern California Edison Company, SoCalGas, Indicated Shippers, and the Public Advocates Office of the Public Utilities Commission stated that they were agreeable to combining testimony, hearings, and briefs for Phase 2 and Phase 3.¹⁴ Sierra Club and The Utility Reform Network (TURN) stated that the issues of Phase 2 and Phase 3 are distinct.¹⁵ Sierra Club stated that Phase 2 and Phase 3 can occur concurrently,¹⁶ while TURN suggested that if testimony, hearings, and briefs are scheduled for Phase 2, then pleadings and comments for Phase 3 should be suspended.¹⁷ The Protect Our Communities Foundation stated that Phase 2 is the starting point for

¹⁴ April 30, 2021 Status Conference Transcript at 25:20 – 28:3.

¹⁵ *Id.* at 28:7 – 28:24, 29:22 – 29:24.

¹⁶ *Id.* at 28:7 – 28:24.

¹⁷ *Id.* at 29:24 – 30:3.

Phase 3 and the proceeding cannot move to Phase 3 without finalizing the results of Phase 2.¹⁸

3. Combining Phase 2 and Phase 3

The evolution of this proceeding indicates that Phase 2 and Phase 3 should be considered together. Phase 2, Question #2 asks “Given the results of Question #1 [impacts on rates and reliability of Aliso Canyon], should the Commission authorize the reduction or elimination of the use of the Aliso Canyon Natural Gas Storage Facility, and if so, under what timeframe and parameters?” Phase 3 is evaluating the timeframe and the parameters of replacement portfolios which are needed to reduce or eliminate the use of Aliso Canyon. It is appropriate to combine testimony, hearings, and briefs for Phase 2 and Phase 3 for three reasons. First, the results of the Phase 3 studies will inform Question #2 of Phase 2. Second, the parties will not have to prepare written testimony, attend hearings and file briefs for Phase 2 while participating in Phase 3, allowing for full engagement in Phase 3. Third, redundant testimony and briefing arguments will be less likely because the parties will submit comprehensive material to address both Phase 2 and Phase 3. As such, the schedule for testimony, hearings and briefs on a combined basis for Phase 2 and 3 will be determined after FTI and GSC complete their analysis of the replacement portfolios and present their findings in a final report.

4. Additional Issues of Phase 3

As previously scoped, Phase 2 Question #2 states “should the Commission authorize the reduction or elimination of the use of the Aliso Canyon Natural Gas Storage Facility, and if so, under what timeframe and parameters?” Given

¹⁸ *Id.* at 33:13 – 34:10.

the extensive modeling and analysis in Phase 2 and Phase 3, the parties will present testimony and argument regarding the merits of the original questions of Phase 2 and Phase 3 set forth above. If the Commission determines that Aliso Canyon should be permanently closed, then additional questions need to address implementation, such as what the closure process itself will look like, which portfolio will be ordered to replace Aliso Canyon, how best to coordinate among the relevant stakeholders,¹⁹ and how the closure will be funded – including how to procure the resources, investments, and strategies necessary to end our dependency on Aliso Canyon while maintaining reliability and affordability. For this purpose, the Phase 3 scope is amended with additional issues as follows:

1. On evaluation of the reports from Phase 2 and the portfolios presented in Phase 3, if the Commission determines that it should authorize the closure of Aliso Canyon, which portfolio should be adopted, and what is the earliest reasonable time that it can be adopted? Should the phase down and closure be tied to thresholds (*e.g.* clean energy investments) or a fixed timeline, or both?
2. If the Commission determines that Aliso Canyon should be permanently closed, what is the process by which non-SoCalGas entities, such as other Investor Owned Utilities (IOUs) and Load Serving Entities (LSEs), should be directed to implement the Commission’s decision?
 - a. Should there be additional or specific requirements for LSEs in the Los Angeles basin?
 - b. Which of the actions and investments would require an application and which will require an Advice Letter (*e.g.*, an Aliso Canyon Decommissioning cost

¹⁹ The list of relevant stakeholders is broader than the current parties. Among other things, this order will direct all Investor-Owned Utilities (IOUs) in the State, and invite all Load Serving Entities (LSEs) that serve the LA Basin, to become parties to this proceeding.

application, including ongoing alternative uses of the facility, applications by LSEs to implement the replacement portfolio)?

- c. What supporting showings and data should be required in the applications (*e.g.* impact on rate base, amount of any decommissioning costs, accounting and associated ratemaking treatment, including rate recovery for activity associated with portfolio implementation, rate design, and cost allocation)?
3. What is the relationship between the decisions being made in this proceeding and other related Commission proceedings and how should this proceeding coordinate with the other related proceedings?
4. If the Commission determines that Aliso Canyon should be permanently closed, what actions must be ordered by the Commission in this proceeding to begin implementation of the closure of Aliso Canyon?
5. Are there other relevant stakeholders – either under or outside of the Commission’s jurisdiction – that must take action to implement the closure?
6. During the period between the approval of a portfolio of resources to replace Aliso Canyon and the time that portfolio of resources is placed into service, what conditions, if any, should be placed on Aliso Canyon’s operation during that limited period?
7. What process should the Commission implement to determine the maximum storage limit during the time period before Aliso Canyon’s replacement is online?
8. What are the other issues, if any, not specifically addressed above that are within the general scope of the proceeding?

5. Interim Maximum Storage Limit

Currently, D.20-11-044 sets the interim maximum capacity of Aliso Canyon at 34 Bcf. Comments to the proposed decision by the utilities and TURN argued for an increase in the capacity to improve reliability and mitigate gas commodity

price spikes.²⁰ The Commission stated that a new level would be determined after Energy Division completes the work in Phase 2.²¹ In response to Question 1 in Phase 2, the Energy Division's Modeling Report described findings that depending on interstate gas availability, the maximum storage level at Aliso Canyon should be increased to 41.16 Bcf, 54.88 Bcf, or 68.6 Bcf.²² Because the most recent analysis on the maximum storage level is complete, the Commission may consider whether to set a (new) interim level without waiting for the conclusion of Question 2 of Phase 2 and Phase 3.

6. Schedule

Below, the schedule lists the future events, along with anticipated written testimony, hearings, and briefs. A separate ruling will follow with the due dates.

- Workshop discussion on Aliso Canyon Local Reliability Impacts, held jointly with the California Energy Commission as part of the 2021 IEPR update, July 9, 2021
- Ruling Setting Additional Modeling for Phase 2 (If Appropriate)
- Ruling Publishing the Results of Additional Modeling and Comment Schedule for Phase 2 (If Appropriate)
- Phase 3 Workshop #3
- Concurrent Opening Comments on Workshop #3
- Concurrent Reply Comments on Workshop #3
- Phase 3 Workshop #4
- Concurrent Opening Comments on Workshop #4
- Concurrent Reply Comments on Workshop #4
- Draft Report of Findings and Conclusions by FTI and GSC

²⁰ D.20-11-044 at 4 - 6.

²¹ *Id.* at 9.

²² Aliso Canyon I.17-02-002 Phase 2: Modeling Report, Jan. 26, 2021, at 85.

- Concurrent Opening Comments on Draft Report of Findings and Conclusions by FTI and GSC
- Concurrent Reply Comments on Draft Report of Findings and Conclusions by FTI and GSC
- Ruling Entering into the Record Final Report of Findings and Conclusions by FTI and GSC
- Opening Written Testimony Served
- Complete Discovery
- Rebuttal Written Testimony Served
- Evidentiary Hearing for Cross Examination
- Concurrent Opening Briefs Filed and Served
- Concurrent Reply Briefs Filed and Served
- Proposed Decision
- Opening Comments on the Proposed Decision
- Reply Comments on the Proposed Decision
- Commission Decision

IT IS RULED that:

1. Phase 2 and Phase 3 are combined.
2. The parties will present the issues of Phase 2 and Phase 3 together in written testimony, hearings, and briefs.
3. The preliminary list of proceeding events for Phase 2 and Phase 3 is set forth above.
4. The scope of Phase 3 has been modified with additional issues as set forth above.
5. All Investor Owned Utilities in the State, who are not yet parties, shall become parties to this proceeding per the Commission's Rules of Practice and Procedure, Rule 1.4(a)(4) via written motion by July 30, 2021.

6. All Load Serving Entities that serve the Los Angeles Basin are strongly encouraged to become parties to this proceeding.

Dated July 9, 2021, at San Francisco, California.

/s/ MARTHA GUZMAN ACEVES
Martha Guzman Aceves
Assigned Commissioner

ATTACHMENT 1



OFFICE OF THE GOVERNOR

November 18, 2019

Marybel Batjer
President
California Public Utilities Commission
300 Capitol Mall
Sacramento, CA 95814

Dear President Batjer,

I am writing to request additional action by the California Public Utilities Commission to expedite planning for the permanent closure of the Aliso Canyon natural gas storage facility.

I appreciate the Commission's work underway to pave the way to minimize or eliminate the use of the Aliso Canyon facility, while still maintaining affordable and reliable energy services for the Los Angeles region. However, I am concerned that the Commission's current proceeding will not yield the fastest and most workable path toward closure of the facility. Further, it may be insufficient to shorten the ten-year timeline for closure outlined in 2017.

Additional actions are necessary to increase public health and safety protections and to combat climate change while maintaining affordable and reliable energy services for the Los Angeles region. To that end, I request that the Commission immediately engage an independent third-party expert to identify viable alternatives to the facility and scenarios that can inform a shorter path to closure. The expert evaluation should examine specific resources to replace demand for the facility. Like the Commission's current work, the evaluation should incorporate assumptions about declining natural gas demand pursuant to state climate change targets. It should also consider efforts to reduce the use of natural gas in homes, businesses and power plants.

I look forward to the results of the Commission's work on this matter and appreciate your contributions to our shared goals of reducing reliance on fossil fuels, maintaining safe, reliable affordable energy, and protecting public health and safety.

Sincerely,

A handwritten signature in black ink, appearing to read "Gavin Newsom", with a long horizontal flourish extending to the right.

Gavin Newsom
Governor of California

(END OF ATTACHMENT 1)