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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 RULING
ENTERING INTO THE RECORD ENERGY DIVISION PROPOSAL
AND ORDERING TESTIMONY**

This ruling sets forth the need for the Aliso Canyon Natural Gas Storage Facility (Aliso Canyon), given current conditions, and enters into the record Energy Division's Staff Proposal for Portfolio and Next Steps (Staff Proposal).¹ The Staff Proposal outlines the resources that might replace the services provided by Aliso Canyon, how progress towards closure might be assessed, and what rate of change would be necessary to meet a specified target closure date.

1. Background

After the massive natural gas leak at Aliso Canyon, Senate Bill (SB) 380 (Statutes of 2016, Chapter 14) tasked the Commission with determining "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 reliability for the region." The Commission opened Investigation

¹ Affixed to this ruling as Attachment A.

(I.) 17-02-002 on February 9, 2017.² The same year, California Energy Commission Chair Robert Weisenmiller wrote to the Commission requesting that it work on “a plan to phase out the use of Aliso Canyon natural gas storage facility within ten years.”³ In 2019, Governor Gavin Newsom wrote to the Commission expressing the desire “to shorten the ten-year timeline for closure outlined in 2017.”⁴

Since 2017, extensive monitoring and testing at Aliso Canyon has improved safety. In 2018, stringent new regulations went into effect for natural gas storage fields to further protect public health.

As California pursues its decarbonization goals, natural gas demand will decline over time. Currently, however, millions of individuals and businesses continue to rely on natural gas for essential services. Given that flowing gas capacity alone is not sufficient to meet peak seasonal or hourly demand, natural gas storage at Aliso Canyon continues to be a key part of the state’s energy infrastructure. Themes in this proceeding reflect California’s evolving energy landscape: increasing renewable energy resources in compliance with the Commission’s integrated resource plan process and the Renewable Portfolio Standard, and potential increases in building electrification. Analyses in this proceeding also reflect the challenges of maintaining gas reliability, including

² SB 380, Pub. Util. Code Section 714(a).

³ CEC News Release, “Energy Commission Chair Releases Letter Urging the Future Closure of Aliso Canyon,” July 2017, available at: https://www.cpuc.ca.gov/-/media/cpuc-website/files/uploadedfiles/cpuc_public_website/content/news_room/news_and_updates/2017-07-19-energy-commission-chair-releases-letter-ailso-canyon-nr.pdf.

⁴ Governor Gavin Newsom, Letter to CPUC President Batjer, November 2019, available at: https://www.cpuc.ca.gov/-/media/cpuc-website/files/uploadedfiles/cpucwebsite/content/news_room/newsupdates/2019/nov-18-2019-letter-to-president-batjer.pdf.

finite import pathways into California and existing aging gas pipelines that cannot deliver at their original planned capacities and would need substantial upgrades to do so.

Phase 1 of this proceeding adopted the Scenarios Framework to guide the analysis of electric and gas rates and natural gas system reliability.⁵ Phase 2 modeled scenarios based on the Phase 1 framework to assess the impact of Aliso Canyon on consumer rates, reliability, and security.⁶ Phase 3 developed portfolios of resources that could be implemented to replace Aliso Canyon.⁷ Subsequently, Phase 2 and Phase 3 were combined, the workshops completed, and the reports entered into the record.⁸ Parties have participated at the workshops and commented on the reports. The next step involves serving testimony on the best mix of resources to reduce or eliminate the reliance on Aliso Canyon and the implementation plan. Before giving the parties guidance on the substance of the upcoming testimony, this ruling summarizes the modeling results of Aliso Canyon's impact on consumer rates, natural gas system reliability, and energy security.

⁵ Assigned Commissioner and Administrative Law Judge's Ruling Adopting Scenarios Framework and Closing Phase 1 of Investigation 17-02-002, January 4, 2019; Administrative Law Judge's Ruling Entering into Record Updated Scenarios Framework, January 14, 2019.

⁶ Assigned Commissioner's Phase 2 Scoping Memo and Ruling, March 29, 2019.

⁷ Assigned Commissioner's Phase 3 Scoping Memo and Ruling, December 20, 2019.

⁸ Assigned Commissioner's Amended Phase 2 and Phase 3 Scoping Memo, July 9, 2021.

2. Aliso Canyon's Current Impacts on Consumer Rates and Reliability of the Natural Gas System

As part of Phase 2, Energy Division presented modeling on Aliso Canyon's impact on electric and gas rates and gas system reliability at four workshops.⁹ The parties submitted informal and formal comments on the workshops and the Energy Division's reports: Energy Division's Economic Analysis Report,¹⁰ Energy Division's Modeling Report,¹¹ and the Phase 2: Additional Modeling Report.¹² Collectively, the reports and the comments indicate that Aliso Canyon is needed, given current conditions, to support just and reasonable electric and gas rates, gas system reliability, and energy security.

2.1. Economic Impacts

The Economic Analysis Report found that Aliso Canyon stabilizes electric and gas rates and helps prevent price spikes in summer electric generation. The results showed that gas prices were more volatile in 2017 and 2018 without Aliso Canyon as compared to 2016.¹³ By 2018, 25 percent increases in the same-day gas price were common.¹⁴ When compared to average gas commodity procurement

⁹ Energy Division held workshops on June 20, 2019, November 13, 2019, July 28, 2020, and October 15, 2020.

¹⁰ Administrative Law Judge's Ruling Entering into the Record Energy Division's Economic Analysis Report, Requesting Comment, November 2, 2020 (hereinafter Economic Analysis Report).

¹¹ 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, March 8, 2021 (hereinafter Modeling Report).

¹² Administrative Law Judge's Ruling Entering into the Record Aliso Canyon Investigation 17-02-002, Phase 2 Additional Modeling Report, February 10, 2022 (hereinafter Additional Modeling Report).

¹³ Economic Analysis Report at 15.

¹⁴ *Id.* at 3.

costs from 2013 to 2015, before the Aliso Canyon leak and limitations, the average gas commodity procurement cost for Southern California Gas Company (SoCalGas) customers increased in 2016 (\$1.36 per customer bill), 2017 (\$1.89 per customer bill), and 2018 (\$2.25 per customer bill).¹⁵ Based on the 2016 estimate, the total impact of the loss of Aliso Canyon on core residential gas customers was approximately \$102 million per year.¹⁶

Additionally, Aliso Canyon has had a critical role in the electric power system's ability to meet regional demand by supplying natural gas-fired electric generation customers. Constrained availability of natural gas in Southern California could require the California Independent System Operator (CAISO) to import additional electricity into the region. Electricity imports could raise electricity prices as less fuel-efficient generators or generators that are farther away are dispatched.¹⁷ Thus, if one of the gas-fired electric generators paying high gas prices in Southern California is the market clearing generator in the CAISO, then electricity prices also increase in Northern California despite lower gas costs in the Northern California.¹⁸ The Economic Analysis Report estimated that customers in the southern area of the CAISO market paid about \$599 million in excess electricity costs in 2018 due to pipeline outages and Aliso Canyon restrictions.¹⁹ Also in 2018, the high gas prices at SoCal Citygate led to higher electricity prices across CAISO, including in Northern California.²⁰ Customers in

¹⁵ *Id.* at 21.

¹⁶ Economic Analysis Report at 4.

¹⁷ *Id.* at 23-24.

¹⁸ *Id.* at 29.

¹⁹ *Id.* at 33.

²⁰ *Id.* at 39.

the CAISO's northern area paid \$317 million more in electricity costs compared to predicted costs.²¹

2.2. Reliability Impacts

The Modeling Report and Additional Modeling Report examine whether Aliso Canyon is needed to meet SoCalGas' 1-in-10 extreme peak cold day and 1-in-35 extreme peak cold day standards, and whether Aliso Canyon is needed for sustained cold periods.²² When evaluating the impact of Aliso Canyon on gas-fired electric generators, where the gas supply is reduced, the Modeling Report found that reliability decreased while costs increased due to less optimal resource dispatch.²³

Simulations of a 1-in-10 peak demand day for winters 2020, 2025, and 2030 demonstrated that Aliso Canyon is necessary to provide gas reliability. Demand would not be met without the use of Aliso Canyon in these peak winter day scenarios.²⁴ Simulations of summer scenarios for 2020, 2025, and 2030 showed that Aliso Canyon was not needed to meet summer demand due to the overall lower level of natural gas demand in summer compared to winter.²⁵ However, as presented in the results of Economic Analysis Modeling Report, high price impacts related to electric generation would occur without the use of Aliso Canyon for balancing in summer.²⁶

²¹ *Id.* at 40.

²² Modeling Report at 9.

²³ *Id.* at 12, 24 (*see* Section I, Production Cost Modeling).

²⁴ *Id.* at 34, 36 and 38 (*see* 1-in-10 simulations described in the Modeling Report, Section II, 1-in-10 Scenarios Modeling).

²⁵ *Id.* at 35, 37, 39.

²⁶ Economic Analysis Report at 4.

The modeling included sensitivities on the 1-in-10 2030 peak winter demand day scenario. Aliso Canyon is needed to maintain reliability when non-Aliso Canyon storage fields are 30 percent, 50 percent, 70 percent, or 90 percent full.

In addition to a 1-in-10 extreme peak winter day, the Modeling Report studied a 1-in-35 extreme peak day for winter 2020, 2025 and 2030. The 1-in-35 extreme peak day standard applicable to SoCalGas allows noncore customers to be curtailed, which greatly reduces demand. Thus, the 1-in-35 standard is lower than the 1-in-10 standard, in which all customer demand must be met. The modeling determined that the 1-in-35 demand could be met without the use of Aliso Canyon. In these scenarios, gas supply was allowed to a subset of electric generators, and demand was met without the use of Aliso Canyon. However, this scenario caused significant impacts on noncore customers and electric generation. The standard is designed to ensure that core customer demand is met during a rare, 1-in-35 extreme peak winter day event, but this level of noncore curtailment is not sound public policy and should not occur with any frequency.

After evaluating single peak-demand days, the Modeling Report modeled the impact of sustained cold periods. During a multiple cold days scenario, the underground storage would be drawn down quickly and more frequently, and the interstate supplies from outside of the SoCalGas territory would remain needed. The results showed that the inventory level needed at Aliso Canyon is 60-100 percent, depending on the available interstate supplies flowing on the pipelines.²⁷

²⁷ Modeling Report at 87.

The Additional Modeling Report studied the receipt point utilization (RPU) percentages, which serve as a proxy for available interstate gas supply. The parties advocated for RPU as low as 60 percent, to account for out-of-state disruptions to supply, and higher than 90 percent, arguing that higher interstate gas supply eliminates the need for Aliso Canyon.²⁸ Interstate gas availability can be impacted by reduced interstate pipeline capacity from unplanned pipeline outages, maintenance, repairs, or out-of-state disruptions to supply.²⁹ As shown by the Additional Modeling Report, even assuming a high RPU of 95 percent with no such disruptions, Aliso Canyon would still be needed to maintain reliability on a 1-in-10 winter day.³⁰

Given the circumstances today, it is undeniable that the availability of gas at Aliso Canyon influences the price of gas and what customers pay for gas and electricity. Aliso Canyon is currently needed to support just and reasonable gas and electricity rates, natural gas system reliability, and energy security. Aliso Canyon cannot be immediately closed without potentially severe consequences for millions of Californians who rely on natural gas for essential services.

3. Resource Mix to Replace the Services Currently Provided by Aliso Canyon

The next steps of this proceeding focus on the portfolios that could replace the services provided by Aliso Canyon and what may be reasonable, and in alignment with California policies.

To determine how to reduce or eliminate reliance on Aliso Canyon, the Commission has preliminarily explored replacement resources and reduced

²⁸ Modeling Report at 86.

²⁹ *Id.* at 87.

³⁰ Additional Modeling Report at 10-11.

demand for natural gas that could lead to a corresponding reduced reliance on Aliso Canyon and eventual elimination of the facility. The parties have already provided input in Phase 3, where FTI Consulting, Inc. and Gas Supply Consulting Inc. modeled the amount of gas storage needed to ensure gas and electric system reliability and shared preliminary scenarios that could replace the services provided by Aliso Canyon in the 2027 or 2035 timeframes.³¹ The parties submitted comments on the workshops and the Aliso Canyon I.17-02-002 Phase 3 Report. To further focus the parties on the necessary information to formulate a plan for reducing or eliminating the reliance on Aliso Canyon, Energy Division's Staff Proposal summarizes the possible replacement portfolios, selects a possible path forward, and outlines an implementation plan.

With guidance from the Staff Proposal, SoCalGas, Southwest Gas Corporation, Southern California Edison, San Diego Gas & Electric Company, and Pacific Gas and Electric Company (collectively, the utilities) are directed to serve testimony answering the specific questions below. Non-utility Load Serving Entities (LSEs) and other parties may also serve testimony Comments on the Staff Proposal separate from testimony are not permitted. The utility testimony must answer the following questions:³²

1. On evaluation of the reports from Phase 2 and the portfolios presented in Phase 3, as the Commission

³¹ Administrative Law Judge's Ruling Entering into the Record Aliso Canyon Investigation 17-02-002, Phase 3 Report, Requesting Comments, January 19, 2022 (Aliso Canyon I.17-02-002 Phase 3 Report, December 31, 2021, affixed to the ruling as an attachment).

³² These questions are derived from the scope set forth in the Assigned Commissioner's Phase 3 Scoping Memo and Ruling, December 20, 2019, and the Assigned Commissioner's Amended Phase 2 and Phase 3 Scoping Memo and Ruling, July 9, 2021, with modifications and omissions due to the evolution of this proceeding. (See Assigned Commissioner's Phase 3 Scoping Memo and Ruling, December 20, 2019, at 3-4.)

- evaluates the paths to close Aliso Canyon, which portfolio should be adopted and why?
- a. What is the earliest reasonable time a portfolio can be adopted for reduction and elimination of California's reliance on Aliso Canyon?
 - b. When implementing a portfolio, which of the actions and investments would require an application and which will require an Advice Letter (*e.g.*, an Aliso Canyon decommissioning cost application, including ongoing alternative uses of the facility, applications by LSEs to implement the replacement portfolio)?
 - c. When implementing a portfolio, 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)?
2. As the Commission evaluates the paths to close Aliso Canyon, what is the process by which non-SoCalGas entities, such as other investor-owned utilities and LSEs, could be directed to reduce the need for Aliso Canyon?
 - a. Should there be additional or specific requirements for LSEs in the Los Angeles basin?
 3. What is the relationship between the decisions being made in this proceeding and other related Commission proceedings and how should the Commission coordinate with other related proceedings?
 4. Are there other relevant stakeholders – either under or outside of the Commission's jurisdiction – that must act to implement the replacement portfolio and close Aliso?³³

³³ See Assigned Commissioner's Amended Phase 2 and Phase 3 Scoping Memo and Ruling, July 9, 2021, at 8-9.

In order to collect the information necessary to evaluate the potential paths forward, the utility testimony will also answer the questions stated in “Section 2.2. Request for Utilities to Provide Implementation Proposals” of the Staff Proposal. Additional suggested questions are provided in “Section 2.1. Request for Input on Staff Proposal.”

The schedule for the written testimony is as follows:

EVENT	DATE
Concurrent Opening Written Testimony Served	October 21, 2022
Concurrent Rebuttal Written Testimony Served	November 10, 2022
Concurrent Sur-rebuttal Written Testimony Served	November 30, 2022

Parties, especially LSEs in the Los Angeles area, are strongly encouraged to serve testimony and provide responses to the Staff Proposal questions. After receiving the testimony, a status conference will be held to discuss the need for an evidentiary hearing and a briefing schedule.

After considering additional record on the possible replacement portfolios and the process to reduce or eliminate the reliance on Aliso Canyon, the Commission will create a plan for reducing or eliminating the reliance on Aliso Canyon. The remaining topics from the July 9, 2021, Assigned Commissioner’s Amended Phase 2 and Phase 3 Scoping Memo will be addressed separately. In the testimony served according to this ruling’s schedule, parties should not include any material on Scoping Memo topics that are not specified in this Ruling or the Staff Proposal.

IT IS RULED that:

1. Southern California Gas Company, Southwest Gas Corporation, Southern California Edison Company, San Diego Gas & Electric Company, and Pacific Gas

and Electric Company shall serve written testimony based on the direction and schedule in this ruling.

2. Load serving entities and other parties are encouraged to serve written testimony based on the direction and schedule in this ruling.

Dated September 23, 2022, at San Francisco, California.

/s/ ALICE REYNOLDS

Alice Reynolds
Assigned Commissioner

ATTACHMENT A