

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



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Order Instituting Investigation on the Commission's Own Motion into the Operations and Practices of Southern California Gas Company with Respect to the Aliso Canyon storage facility and the release of natural gas, and Order to Show Cause Why Southern California Gas Company Should Not Be Sanctioned for Allowing the Uncontrolled Release of Natural Gas from its Aliso Canyon Storage Facility. (U904G)

Investigation 19-06-016
(Filed June 27, 2019)

**JOINT MOTION OF
THE SAFETY AND ENFORCEMENT DIVISION,
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND
THE PUBLIC ADVOCATES OFFICE
FOR ADOPTION OF SETTLEMENT AGREEMENT**

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Pursuant to Rules 11.1 and 12.1 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure (Rules), Safety and Enforcement Division (SED), Southern California Gas Company (SoCalGas) and the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) (collectively, "Joint Parties") file this joint motion for adoption of a comprehensive settlement agreement of this Order Instituting Investigation/Order to Show Cause (Proceeding).¹ The Joint Parties' Comprehensive Settlement Agreement (Settlement Agreement) is filed herewith as Attachment A.²

The Joint Parties negotiated a proposed Settlement Agreement which was the result of many days of negotiations and includes several material terms. In consideration of all the terms

¹ In accordance with Administrative Law Judge (ALJ) Hecht's instruction at the August 10, 2022 Status Conference, Joint Parties filed a motion for waiver of Commission Rule 12.1(a)'s 30-day, post-hearing deadline for moving for adoption of a proposed settlement. *See*, Joint Motion of SoCalGas, SED, and Public Advocates Office for Waiver of the 30-Day Provision of Rule 12.1. On October 13, 2022, the ALJs granted Joint Parties' Motion for Waiver. *See*, *E-mail Ruling Granting Joint Motion for Waiver of the 30-Day Provision of Rule 12.1* (Oct. 13, 2022).

² This Joint Motion is not intended to modify or interpret the Agreement in any way. To the extent there is any conflict between this Joint Motion and the Settlement Agreement, the Settlement Agreement controls.

of the Settlement Agreement, SoCalGas agrees that it will bear \$610.1 million in financial obligations and SoCalGas admits to a violation of Public Utilities Code Section 451. In entering into this Settlement Agreement, and as part of the mediation process, the Joint Parties have considered various factors, including the weaknesses and risks presented in each party's case. The Settlement Agreement represents a comprehensive settlement of all Joint Parties' issues in the Proceeding, is reasonable in light of the record, comports with applicable law, and is in the public interest. In addition, the Joint Parties evaluated the considerations outlined in the Commission's Enforcement Policy as part of the settlement process. The Joint Parties respectfully request that the Commission grant this Motion and approve the Settlement Agreement in its entirety without condition or modification and close the Proceeding.

I. BACKGROUND AND SUMMARY OF SETTLEMENT AGREEMENT

A. The Incident and SoCalGas's Leak Response

SoCalGas owns and operates infrastructure supplying natural gas to more than 21 million people throughout Central and Southern California.³ SoCalGas operates four underground storage facilities, the largest of which is the Aliso Canyon Underground Natural Gas Storage Facility (the Facility or Aliso Canyon). Aliso Canyon is located in the Santa Susana Mountains in Los Angeles County and serves more than 11 million customers and provides fuel to 17 natural gas fired power plants. On the afternoon of Friday, October 23, 2015, SoCalGas discovered a leak on well SS-25 (one of approximately 114 wells located at Aliso Canyon) (the Incident). SoCalGas contacted government agencies—including the Los Angeles County Fire Department, the Commission, and the Division of Oil, Gas, and Geothermal Resources (DOGGR)⁴ to inform them about the Incident.

SoCalGas personnel initially attempted to control the leak via a routine "top kill" on October 24, 2015, but were unsuccessful. Based on the results of the first well kill attempt, SoCalGas determined it would require the assistance of specialized well control contractors. On

³ Key State Investigations into Southern California Gas Company Natural Gas Leak at Aliso Canyon, Dec. 15, 2015. *Available at* https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/News_and_Updates/DOGGR%20CPUC%20Joint%20Statement%20on%20Aliso%20%20Investigations%2012-15-2015%20v1-1.pdf. ("Key State Investigations").

⁴ DOGGR is now known as California Geologic Energy Management Division, or CalGEM.

Saturday October 24, 2015, SoCalGas contacted Boots & Coots, an emergency well-control contractor, to evaluate well SS-25 and assist with the well control operation.

Between November 13, 2015 and December 22, 2015, Boots & Coots attempted six unsuccessful top kill attempts on well SS-25. On November 17, 2015, after Boots & Coots had implemented its second top kill attempt, SoCalGas filed a Notice of Intention to drill a relief well (Porter 39A) as a contingency measure. While Boots & Coots made continued attempts to control the well by top kill, a separate team of specialists worked in parallel to plan, model, and drill the relief well that ultimately brought the well under control on February 11, 2016. On February 18, 2016, DOGGR certified that Well SS-25 was permanently sealed.

During the Incident, SoCalGas undertook significant efforts to attempt to mitigate impacts of the leak on community residents:

Prior to the successful well kill operation, SoCalGas explored other mitigative measures such as reducing reservoir inventory pressure, by withdrawing gas from the reservoir and delivering it into the transmission pipeline system, thereby reducing the leak flow rate. In addition, the utility also considered developing engineering solutions to capture the leaking gas but abandoned the idea because of safety concerns. SoCalGas conducted air sampling and monitoring in the surrounding communities... In response to the gas leak, SoCalGas relocated more 8,000 households to hotels and homes in communities that were not affected.⁵

As part of the settlement agreement, SoCalGas has acknowledged that it will not seek to recover from ratepayers relocation costs and settlements paid to the community.

B. Comprehensive Safety Review

After suspending gas injection operations following the Incident, in 2017 DOGGR and the Commission conducted a “Comprehensive Safety Review” in which “state engineering and safety enforcement experts have concluded the facility is safe to operate and can reopen at a greatly reduced capacity in order to protect public safety and prevent an energy shortage in Southern California.”⁶ The Comprehensive Safety Review involved a new “rigorous testing process” that was developed in coordination with experts from the Lawrence Berkeley, Lawrence Livermore

⁵ See webpage titled “Background on Aliso Canyon and Actions to Date” at <https://www.cpuc.ca.gov/regulatory-services/safety/gas-safety-and-reliability-branch/alisocanyon-well-failure/background-on-aliso-canyon-and-actions-to-date>.

⁶ State Inspections Confirm Safety of Aliso Canyon Natural Gas Storage Facility, <https://www.conservation.ca.gov/calgem/Documents/Aliso/News%20Release.pdf>

and Sandia National Labs, and included, among other things, examination with acoustic sensors, measurements of well casing walls, and pressure tests.

On July 29, 2017 DOGGR opined that the “extensive testing, retrofits and new safety measures ensure the wells are in sound operating condition today.”⁷ The Commission’s Executive Director Timothy Sullivan concurred in DOGGR’s determination that the facility was safe.⁸ The Commission later determined in a separate proceeding that the Aliso Canyon Storage Field was continuously in service since the October 2015 leak of that facility, pursuant to the applicable provisions of Public Utilities Code Section 455.5.⁹

C. Blade Energy Partners’ Root Cause Analysis Investigation

On December 14, 2015, SED and DOGGR directed SoCalGas to retain an independent expert to conduct a root cause analysis of the Incident.¹⁰ SED and DOGGR ultimately selected Blade Energy Partners (Blade) for this task.¹¹ Blade collected information for its root cause analysis¹² and issued its *Final Root Cause Analysis of the Uncontrolled Hydrocarbon Release from Aliso Canyon SS-25* report on May 16, 2019.¹³ The Blade Report offered Blade’s findings, opinions, and analyses as to the causes of the incident, which Blade defines as follows:

⁷ Id.

⁸ Id.

⁹ Order Instituting Investigation on the Commissions Own Motion to Determine Whether the Aliso Canyon Nat. Gas Storage Facility Has Remained Out of Serv. for Nine Consecutive Months Pursuant to Pub. Utilities Code Section 455.5(a) & Whether Any Expenses Associated with Out of Serv. Plant Should Be Disallowed from S. California Gas Company’s Rates., D.18-09-032, (Sept. 27, 2018) 2018 WL 5303854, at *21.

¹⁰ Letter from SED and DOGGR to Jimmie Cho, Senior Vice-President of SoCalGas, Dec. 14, 2015, available at https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/News_and_Updates/Letter%20dated%20December%2014%202015.pdf.

¹¹ Letter from SED and DOGGR to Jimmie Cho, Senior Vice-President of SoCalGas, Dec. 14, 2015, available at https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/News_and_Updates/Letter%20dated%20December%2014%202015.pdf.

¹² Blade notes it reviewed more than 57,000 files and 200 GB of data. Blade Report (Supplementary Report – Volume 1 – Approach), at 7.

¹³ *Final Root Cause Analysis of the Uncontrolled Hydrocarbon Release from Aliso Canyon SS-25*, (Blade Report).

Direct causes, including contributing ones, are those that, if identified and prevented, would eliminate the occurrence of an SS-25 type of incident (or similar). Root causes are those that, if identified and prevented, would avert an SS-25 type of incident and all other types of well integrity incidents through the use of procedures, best practices, design, management systems, and regulations. The investigation of the SS-25 incident identified direct causes and root causes.¹⁴

The “direct” causes identified in the Blade Report were a rupture of the wellbore casing due to microbial corrosion caused by groundwater and unsuccessful top-kill efforts caused by a lack of both transient kill modeling and gas flow rate estimations.¹⁵ The “root” causes noted by Blade were lack of detailed investigations into prior leaks, lack of risk assessment focused on wellbore integrity management, the lack of a dual mechanical barrier, the lack of an internal policy or a State-mandated regulation requiring casing wall thickness inspections, no well control plan that considered transient kill modeling, a lack of understanding of groundwater depth, no systematic practices for external corrosion protection, and the lack of a continuous pressure monitoring system.¹⁶ In order to present solutions to avoid similar incidents in the future, Blade included recommendations regarding what might be done differently from a technical standpoint to prevent a similar incident from reoccurring. This is consistent with the Blade Report’s stated intent for identifying root causes and implementable solutions “to prevent reoccurrence of similar or other well integrity issues.”¹⁷ Blade made 12 forward-looking recommendations in its report for mitigating the risk of another similar incident taking place: (1) production casing should be cemented to the surface; (2) regulations should require wall thickness inspections; (3) internal policy should require casing wall thickness inspection; (4) a risk-based well integrity management system should be implemented; (5) conduct a casing corrosion study; (6) conduct a casing failure analysis; (7) regulations requiring Level 1 (per API RP 585) analysis of all failures; (8) a well-specific detailed well-control plan; (9) a tubing-packer completion for dual barrier system; (10) implement cathodic protection, as appropriate; (11) ensure surface casings are cemented to surface for new wells; and (12) well surveillance through surface pressure.¹⁸

¹⁴ Blade Report at 4.

¹⁵ Blade Report at 237.

¹⁶ Blade Report at 237-38.

¹⁷ Blade Report at 208.

¹⁸ Blade Report at 183.

Blade's findings and conclusions were also based, in part, on a review of regulations and standards applicable to SoCalGas's operation and maintenance of well SS-25 and the Aliso Canyon gas storage facility.¹⁹

SoCalGas states that it has implemented most of the Blade Report's applicable recommended mitigation solutions and is in the process of reviewing the feasibility of the remaining two applicable solutions.²⁰

D. Commission Proceeding

The Commission issued Investigation (I.) 19-06-016, Order Instituting Investigation and Order to Show Cause (jointly referred to herein as the OII) on June 27, 2019, based on the Blade Report. A prehearing conference (PHC) was held on August 30, 2019 to discuss the scope, schedule, need for hearing, and other matters. On September 26, 2019, the Assigned Commissioner issued the Scoping Memo and Ruling (Scoping Memo) which defines the scope and issues to be addressed in the proceeding.²¹ The Scoping Memo identifies eight issues for adjudication within the OII and bifurcated the proceeding into two phases.

The Scoping Memo identifies four issues for adjudication in Phase 1 of this proceeding (Issues 1, 3, 4 and 8), including whether SoCalGas's operations and maintenance practices, record keeping practices and response to the leak violated any law or requirement as well as issues related to SoCalGas's cooperation with SED's investigation. The Administrative Law Judges (ALJs) further divided the proceeding and deferred consideration of alleged violations related to Scoping Memo Issue 3 (SoCalGas's cooperation with SED) to a later time.²² The Scoping Memo reserved

¹⁹ Blade Report at 160.

²⁰ SoCalGas Opening Br. at 41 (citing SoCalGas-3 (Kitson Opening Testimony) at 1). In particular, SoCalGas has already implemented Solutions 1 (Production Casing Should be Cemented to Surface), Solution 3 (Internal Policy should Require Casing Wall Thickness Inspections), Solution 4 (A Risk Based Well Integrity Management System Should be Implemented), and Solution 6 (Conduct a Casing Failure Analysis); Solution 9 (Tubing Packer Completion-Dual Barrier System), Solution 11 (Ensure Surface Casings Are Cemented to Surface for New Wells), and Solution 12 (Well Surveillance Through Surface Pressure).

SoCalGas is also in the process of implementing Solution 5 (Conduct a Casing Corrosion Study) and is reviewing the remaining two solutions for potential implementation: Solution 8 (Well Specific Detailed Well- Control Plan), and Solution 10 (Implement Cathodic Protection as Appropriate).

²¹ Assigned Commissioner's Scoping Memo and Ruling (Sept. 26, 2019) ("Scoping Memo").

²² See *ALJs' Ruling Defining the Scope and Schedule for Evidentiary Hearings* (Feb. 1, 2021).

the remaining four issues (Issues 2, 5, 6, and 7) for Phase 2, including appropriate penalties, if any, the Commission should impose for any violations identified in Phase 1 of the proceeding.

Pursuant to the schedule established by the Scoping Memo, SED and SoCalGas served concurrent opening testimony on Phase 1 issues on November 22, 2019, and Cal Advocates served its opening testimony in support of SED's alleged violations on December 20, 2019. SED and SoCalGas served reply testimony on March 20, 2020, and SED, SoCalGas, and Cal Advocates served sur-rebuttal testimony on June 30, 2020. The ALJs ordered supplemental testimony on alleged Violation 331, which SED had not identified in opening testimony. Reply testimony on alleged Violation 331 was served by SoCalGas on October 26, 2020, and on November 24, 2020, SED served its Sur-Reply Testimony.

SED's prepared testimony alleged 331 violations comprised of 238 alleged "lack of cooperation" violations, and 89 alleged violations of Section 451 related to SoCalGas's operations and maintenance, leak response, and record-keeping (Operations & Maintenance Violations). The alleged Operations & Maintenance Violations are summarized as follows:

- **Violations 1-60** - SED's testimony alleged that SoCalGas acted unreasonably because it failed to investigate the causes of previous leaks at Aliso Canyon, which SED contends might have alerted SoCalGas to the issues that caused the failure of well SS-25;²³
- **Violations 61-73** - SED's testimony alleged that SoCalGas acted unreasonably because it failed to follow the recommendations of a 1988 project that had proposed conducting casing inspections using Vertilog on thirteen wells at Aliso Canyon, including well SS-25;
- **Violations 74-76 and 78** - SED's testimony alleged that SoCalGas acted unreasonably because it had not implemented a formal risk management or assessment program for inspecting well casing before the SS-25 gas leak;
- **Violation 77** - SED's testimony alleged that SoCalGas acted unreasonably because it operated well SS-25 without a "backup mechanical barrier";
- **Violations 79 and 83** - SED's testimony alleged that SoCalGas's failure to successfully execute its well SS-25 kill attempts due to lack of proper modeling was unreasonable;
- **Violations 84-86** - SED's testimony alleged that SoCalGas acted unreasonably because it failed to implement measures to prevent groundwater from causing corrosion of well SS-25;

²³ In its Opening Brief, SED withdrew alleged Violations 6 and 60.

- **Violation 87** - SED's testimony alleged that SoCalGas acted unreasonably because it had not installed a continuous pressure monitoring system on well SS-25;
- **Violations 327-329** - SED's testimony alleged that SoCalGas's recordkeeping practices associated with wells SS-25, SS-25A and SS-25B were imprudent and unreasonable;
- **Violation 330** - SED's testimony alleged that SoCalGas acted unreasonably because it failed to record continuous wellhead pressures; and
- **Violation 331** - SED's testimony alleged that SoCalGas purposefully extracted and vented oil into the atmosphere during well kill operations on November 13, 2015.

As summarized below, SoCalGas's prepared testimony responded to SED's Operations & Maintenance Violations as follows:

- **Violations 1-60** – SoCalGas's testimony stated that it investigated and addressed the cause of leaks as they arose and that SoCalGas's operations and maintenance practices complied with applicable regulations and prevailing industry practices;
- **Violations 61-73** – SoCalGas's testimony stated that the Vertilog tool available in 1988 was unreliable, that SoCalGas's use of annual temperature logging satisfied DOGGR's mechanical integrity testing requirements and that SoCalGas's well integrity monitoring practices met or exceeded prevailing gas storage industry practice;
- **Violations 74-76 and 78** – SoCalGas's testimony stated that SoCalGas's well-integrity practices exceeded applicable regulations and prevailing industry practice, and that SoCalGas's Storage Integrity Management Program, which SoCalGas proposed and piloted prior to the Incident, exceeded prevailing industry practice;
- **Violation 77** – SoCalGas's testimony stated that its use of single barrier configuration in underground gas storage is consistent with the prevailing industry practice, and that as of September 2016, 87% of all gas storage wells in the country utilized single-barrier design;
- **Violations 79 and 83** – SoCalGas's testimony stated that it was not a standard industry practice to conduct transient modeling for emergency well control operations by top kill, and that uncontrolled releases are typically brought under control without the aid of transient modeling;
- **Violations 84-86** – SoCalGas's testimony stated that no regulation, rule, or industry practice sets a standard for assessing the relationship between a well and groundwater, and that the SS-25 surface casing had been installed and cemented consistent with the prevailing industry practice at the time of installation;

- **Violation 87** – SoCalGas’s testimony stated that installation of real-time pressure monitoring systems on existing wells was not required by regulation or the prevailing industry practice at the time of the Incident and that real-time pressure monitoring would not have prevented the Incident;
- **Violations 327-329** – SoCalGas’s testimony stated that SoCalGas’s well files were organized and maintained to allow for the efficient operation and maintenance of the Aliso Canyon facility, that its records management practices met or exceeded prevailing industry practice, and that the records necessary to control SS-25 were in the well file at the time of the kill attempts;
- **Violation 330** – SoCalGas’s testimony stated that no regulation or industry standard required continuous wellhead pressure monitoring and therefore there was no requirement to record such measurements; and
- **Violation 331** – SoCalGas’s testimony stated that SoCalGas did not purposefully extract and vent oil into the atmosphere during well kill operations on November 13, 2015. Instead, SoCalGas’s testimony explained that the November 13 release was the natural by-product of the well kill attempt implemented by Boot & Coots that same day.

Between March 16, 2021 and May 19, 2021, the ALJs held 20 days of virtual evidentiary hearings regarding SED’s alleged operations and maintenance, leak response, and record-keeping violations. Thirteen witnesses testified, including one SED witness, three Cal Advocates witnesses, nine SoCalGas witnesses, and the lead author of the Blade Report. Additionally, 178 Exhibits were admitted into the evidentiary record. Joint Parties served opening post-hearing briefs on May 9, and reply post-hearing briefs on May 31, 2022.

In addition to the testimony, hearings and briefing described above, Joint Parties filed over 80 motions in this Proceeding, many of which are still pending.

E. Pre-Evidentiary Hearing Settlement Efforts

Pursuant to the Scoping Order, SED and SoCalGas were ordered to meet, “[A]t least once per month to discuss the potential for a settlement agreement and/or the possible stipulation of discrete issues.”²⁴ The parties were also ordered to, “[C]onfer periodically with other parties.”²⁵ SED and SoCalGas met every month from August 2019 until January 2021. On February 24, 2020, SED notified all parties to the proceeding of a monthly settlement meeting. Thereafter, monthly multi-party settlement meetings were held subject to Rule 12.6. These meetings were

²⁴ Scoping Memo, p. 14.

²⁵ Id.

held virtually due to the Covid-19 pandemic. The parties who joined SED and SoCalGas in these settlement meetings were Cal Advocates, City of Long Beach, The Utility Reform Network (TURN), Indicated Shippers, and the Southern California Generation Coalition (SCGC). The last multi-party settlement meeting occurred on December 16, 2020. On January 6, 2021, SED filed a motion to suspend the requirement to hold monthly settlement meetings. SoCalGas opposed that motion. On January 22, 2021, the ALJs granted SED's suspension request.

F. Post-Hearing Settlement Efforts

On August 4, 2022, SoCalGas, SED, and Cal Advocates served notice on the service list that they had agreed to pursue mediation and selected Robert Fairbank of Fairbank ADR to serve as a mediator. In addition to his general experience as a mediator, Mr. Fairbank successfully mediated the San Onofre Generating Station settlement, which ultimately was approved by the Commission.

The ALJs convened a status conference on August 10, 2022, to discuss Joint Parties' notice of mediation. Following the status conference, on August 24, 2022, the ALJs issued a ruling requiring Joint Parties to: (1) file two interim status reports on their mediation and settlement efforts, and (2) file, on October 7, 2022, either a motion for the Commission to adopt a comprehensive settlement, or a status update providing information on the likelihood and potential timing of a motion for comprehensive settlement.²⁶ The ALJs' August 24, 2022 ruling indicated a strong preference for a global settlement of all phases and issues within this proceeding, as it could, "save future work for parties and the Commission."²⁷

After being retained by the Joint Parties, Mr. Fairbank immediately began working with the Joint Parties to try to reach a settlement. After two full days of in-person mediation attended by a principal and an attorney for each of SoCalGas, SED and Cal Advocates, the Joint Parties reached an agreement in principle that would ultimately form the foundation of the Settlement Agreement. On October 11, 2022, Joint Parties executed a global Settlement Agreement resolving and disposing of all issues related to Incident and all other issues within the scope of the Proceeding.

²⁶ *Administrative Law Judges' E-mail Ruling Requiring Status Updates* (August 24, 2022).

²⁷ *Id.* at 4.

On October 11, 2022, Joint Parties informed the assigned ALJs that they had reached a comprehensive settlement and filed a motion to request that the requirement under Rule 12.1 to submit settlement agreements within 30 days after the last day of hearings be waived. The ALJs granted the joint motion for waiver of the 30-day provision and directed that the “settlement and the accompanying motion [] be submitted no later than October 31, 2022” and that the settlement documents comply with Rule 12.1.²⁸

In accordance with Rule 12.1, Joint Parties noticed a settlement conference to all parties on October 14, 2022. Joint Parties convened a settlement conference on October 21, 2022. Principals and attorneys attended for SED, Cal Advocates and SoCalGas. TURN, Indicated Shippers, SCGC and the City of Long Beach attended the settlement conference, which lasted over an hour. The Joint Parties answered questions regarding the proposed settlement.

G. Summary of the Settlement

For purposes of a comprehensive and global settlement of the Proceeding, the proposed Settlement Agreement includes, among other terms, SoCalGas’s admission to a violation of Public Utilities Code Section 451, and agreement to the following fines, disallowances, and refunds, totaling six hundred ten million, one hundred thousand dollars (\$610.1 million):

- 1. Monetary Fine.** \$105.1 million fine in full resolution of all violations or claims related to the Incident. The \$105.1 million fine is offset by \$34.1 million pursuant to California Public Utilities Code Section 972 for costs incurred by SoCalGas in fully mitigating the gases emitted by the leak. The balance of the fine, \$71 million, will be paid to the Aliso Canyon Recovery Account pursuant to California Public Utilities Code Section 2104.7.
- 2. Admission of Violation.** Solely for purposes of this Settlement Agreement and resolution of all issues related to I.19-06-016, SoCalGas admits in this Proceeding to a violation of California Public Utilities Code Section 451 based on the totality of the circumstances related to the uncontrolled release of natural gas from Well SS-25 at the Aliso Canyon facility from October 23, 2015 through February 11, 2016.²⁹

²⁸ *E-mail Ruling Granting Joint Motion for Waiver of the 30-Day Provision of Rule 12.1* (October 13, 2022).

²⁹ See Attachment A.

3. Disallowance, Refunds, or Reimbursements.

- a. SoCalGas agrees to the following with respect to the Aliso Canyon Incident Memorandum Account (“ACIMA”) and to close ACIMA upon Commission approval of the Settlement Agreement:
 - i. SoCalGas shall forgo rate recovery of \$108.8 million in costs related to Blade’s Root Cause Analysis investigation; and
 - ii. SoCalGas agrees to reimburse SED for \$1.5 million in investigation and litigation costs related to I.19-06-016.
- b. SoCalGas shall forgo rate recovery of \$376.5 million of costs tracked by SoCalGas and reported to the Commission in the monthly Incident-related cost report submitted by SoCalGas pursuant to the Executive Director’s December 23, 2015 letter *Re: Southern California Gas Shall Provide Information to CPUC Concerning Costs Associated with the Aliso Canyon Underground Storage Field Leak* (“Incident Cost Report”). This amount is comprised of unreimbursed Incident-related costs as follows:
 - i. \$362,051,835 in outside counsel, litigation costs, and regulatory costs; and
 - ii. \$14,448,165 million in public affairs, community relations, and other support.
- c. SoCalGas agrees that with respect to limitations on the use of Aliso Canyon following the Incident, SoCalGas will refund to ratepayers the following amounts, which will be refunded on a pro-rata basis based on the percentage of Operational Flow Order noncompliance charges and balancing function charges, respectively, from November 1, 2015 through July 23, 2019, within forty-five (45) days of the Effective Date:
 - i. \$13.2 million for Operational Flow Order³⁰ noncompliance charges; and
 - ii. \$5.0 million for balancing function rebate.

³⁰ An Operational Flow Order (OFO) occurs when the anticipated deliveries into SoCalGas’s system are greater than the maximum or less the minimum forecasted capacity of the system for a given day. When an OFO is issued customers financially responsible for managing and clearing transportation imbalances (Balancing Agent) will be required to balance supply and demand on a daily basis within a specified tolerance band or be subject to charges for noncompliance.

II. THE SETTLEMENT AGREEMENT IS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH THE LAW, AND IN THE PUBLIC INTEREST

Rule 12.1(d) states that: “[t]he Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.” As discussed below, the Settlement Agreement satisfies this standard.

A. The Settlement Agreement is Reasonable in Light of the Record and Consistent with Law.

A proposed settlement is reasonable if it “adopts a result in the range of reasonableness in the context of the allegations and the strength of evidence, and as weighed against the significant risk, expense, complexity, and length of further proceedings.”³¹

The Settlement Agreement is the result of extensive and vigorous arms-length negotiations among the Joint Parties to resolve a complex dispute and determine appropriate settlement terms. The Joint Parties meaningfully engaged in the Proceeding and have developed a thorough understanding of the issues involved and the voluminous evidentiary record developed throughout the proceeding. The Joint Parties also briefed the matters that were at issue in the hearings. Based on each Party’s participation in the hearings and the Opening and Reply Briefing in this matter, Joint Parties have a full understanding and assessment of each other’s factual and legal positions.

In reaching the Settlement Agreement, Joint Parties considered relevant information from the Blade Report, and the strengths and weakness of both the prepared testimony of Joint Parties’ witnesses, and the testimony of more than a dozen witnesses over 20 days of evidentiary hearings. The Joint Parties were well-informed regarding the evidentiary record and reached a comprehensive settlement that resolved all issues in this Proceeding. Accordingly, with the assistance of an experienced mediator, the Joint Parties appropriately balanced the strengths and weaknesses of their respective positions based on the whole evidentiary record and agreed to the settlement as a reasonable means by which to resolve all issues in this proceeding.

³¹ *Order Instituting Investigation into Operations & Practices of Preferred Long Distance, Inc. to Determine Whether Respondents Violated the Laws, Rules, & Regulations of This State Governing the Manner in Which California Consumers Are Switched from Tel. Carriers & Billed for Tel. Products & Services (U5502c)*. (Oct. 15, 2019) 2019 WL 5450851, at *1.

The Settlement Agreement is consistent with applicable laws. There are no terms within the Settlement Agreement that are contrary to any statute, case law, or Commission rules or regulation.

B. The Settlement Agreement is in the Public Interest.

The Commission has recognized that public policy favors the settlement of disputes to avoid costly and protracted litigation.³² By reaching agreement, the Joint Parties avoid the costs and uncertainties of further litigation in this Proceeding and eliminate the possible litigation costs for rehearing and appeal. The public interest is served by reducing the expense of litigation, conserving scarce resources, and allowing litigants to eliminate the risk of an uncertain litigated outcome. The Settlement Agreement further acknowledges the substantial payments that SoCalGas had already made.

SoCalGas has also already settled claims with civil plaintiffs (\$1.8 billion), government plaintiffs (\$126.4 million), and has expended \$461.8 million in relocation costs, including lodging, meal allowance, incidentals, and air purification equipment that SoCalGas provided to members of the surrounding community during the Incident. The proposed Settlement Agreement memorializes that SoCalGas has previously stated that it will not be seeking recovery of these costs from ratepayers.

The proposed Settlement Agreement³³ provides for a total fine of \$105.1 million, offset by \$34.1 million SoCalGas already expended to mitigate the greenhouse gas impacts of the leak.³⁴ Pursuant to a 2018 mitigation agreement with the California Air Resources Board (Mitigation Agreement), SoCalGas agreed to provide funding for dairy digester infrastructure and projects to fully mitigate the 109,000 metric tons of methane resulting from the leak (the Mitigation

³² Decision (D.) 88-12-083, 30 CPUC 2d 189, 221.

³³ See Attachment A, Section II(C)(1)(a).

³⁴ Public Utilities Code Section 972 states in relevant part:

A penalty assessed against a gas corporation pursuant to this part in regards to a natural gas storage facility leak shall at least equal the amount necessary to reduce the impact on the climate from greenhouse gases by an amount equivalent to the impact on the climate from the greenhouse gases emitted by the leak from the natural gas storage facility, as determined by the State Air Resources Board. In determining the amount necessary to fully offset the impact on the climate from the gases emitted by the leak, the commission shall consider the extent to which the gas corporation has mitigated, or is in the process of mitigating, the impact on the climate from greenhouse gas emissions from the leak.

Obligation). In May 2022, CARB approved a total of 113,327 metric tons of methane reductions and confirmed that SoCalGas had exceeded its Mitigation Obligation under the Mitigation Agreement. The proposed Settlement Agreement recognizes \$34.1 million in mitigation costs as an offset to the fine.³⁵

Consistent with Public Utilities Code Section 2104.7, SoCalGas will pay the remaining \$71 million fine to the Aliso Canyon Recovery Account. In addition, SoCalGas has agreed to reimburse SED for \$1.5 million in investigation and litigation costs and has agreed to forgo rate-recovery of costs related to the SED and DOGGR-ordered Root Cause Analysis investigation (\$108.8 million), litigation and regulatory costs (\$362 million), and public affairs, communication relations, and other support costs (\$14.4 million).³⁶

III. THE SETTLEMENT AGREEMENT COMPORTS WITH THE COMMISSION’S POLICY FOR ASSESSING PENALTIES

A. The Settlement Complies with the Commission’s Enforcement Policy.

Resolution M-4846, which adopted the Commission’s Enforcement Policy, provides general considerations that should be evaluated as part of any proposed settlement to be submitted for Commission review. Those considerations include equitable factors, mitigating circumstances, evidentiary issues, and other weaknesses in the enforcement action that the division reasonably believes may adversely affect the ability to obtain the calculated penalty. Without divulging the content of confidential mediation discussions, each Party considered the risks and weaknesses of their positions, and concessions by one Party on some issues were offset by concessions by the other Parties on other issues, as is the case with almost every settlement. The Settlement Agreement accordingly represents a series of tradeoffs and must be viewed as a “package.”

B. The Settlement Agreement Comports with Decision 98-12-075.

The Settlement Agreement not only satisfies the requirements of Rule 12.1(d), but also comports with Decision (D.) 98-12-075, which articulates the Commission’s policy for assessing penalties.³⁷ The Commission has consistently applied the five factors articulated in D.98-12-075

³⁵ See Attachment A, Section II(C)(1)(a).

³⁶ As of September 15, 2022 Incident-related costs tracked by SoCalGas totaled approximately \$3.3 billion.

³⁷ *Standards of Conduct Governing Relationships Between Energy Utilities and Their Affiliates* (D.98-12-075), 1998 Cal. PUC Lexis 1018.

to enforcement proceedings in determining the penalties to be imposed. These same factors have been incorporated in the Commission's Enforcement Policy.³⁸

1. Severity or Gravity of the Offense

The Commission has stated that the severity of the offense includes several considerations, including economic harm, physical harm, and harm to the regulatory process.

a. Physical and Economic Harm

The Commission has described the physical and economic harm criteria as follows:

Economic harm reflects the amount of expense which was imposed upon the victims. In comparison, violations that cause actual physical harm to people or property are generally considered the most severe, followed by violations that threaten such harm.³⁹

The October 23, 2015 Incident was a significant gas leak that persisted for 111 days before it was successfully brought under control. An estimated 109,000 metric tons of methane were released during the leak period and more than 8,000 households from the nearby community were temporarily relocated during the Incident. However, no fatalities resulted from the well control operations. Nearly all civil claims related to the Incident have been resolved through settlement. The GHG impacts from the release have been fully mitigated. The Settlement Agreement acknowledges the significance of the Incident. As noted above, in addition to the substantial costs already spent on customer relocation, and both government and civil plaintiff settlements, SoCalGas will provide refunds to ratepayers of the following amounts, which will be refunded on a pro-rata basis based on the percentage of Operational Flow Order (OFO) noncompliance charges and balancing function charges, respectively, from November 1, 2015 through July 23, 2019: \$13.2 million for OFO noncompliance charges; and \$5.0 million for balancing function rebate.

b. Harm to the Regulatory Process

As part of the severity of the offense factor, the Commission has described the harm to the regulatory process criterion as follows:

Every public utility shall obey and comply with every order, decision, direction, or rule made or prescribed by the Commission in the matters specified in this part, or

³⁸ Resolution M-4846, Commission Enforcement Policy, pp. 16-21.

³⁹ D.98-12-075, 1998 Cal. PUC Lexis 1018 *89; Resolution M-4846, Enforcement Policy at 16.

any other matter in any way relating to or affecting its business as a public utility, and shall do everything necessary or proper to secure compliance therewith by all of its officers, agents, and employees. (Public Utilities Code §702).

Such compliance is absolutely necessary to the proper functioning of the regulatory process. For this reason, disregarding a statutory or Commission directive, regardless of the effects on the public, will be accorded a high level of severity.⁴⁰

This is an area of dispute between SED and SoCalGas that is resolved by the Settlement Agreement. In its Opening Testimony, SED alleged 238 violations for SoCalGas's alleged "lack of cooperation" with SED's investigation into the Aliso Canyon Incident. (Alleged Violations 89-326). SED subsequently withdrew four of these alleged violations (Alleged Violations 89-92). SoCalGas maintains that it cooperated with SED's investigation and did not commit any violation of Section 451 or Rule 1.1 of the Commission's Rules of Practice and Procedure.⁴¹

While the Joint Parties disagree whether SoCalGas's conduct alleged in Violations 93 through 326 constitutes a violation of Section 451 and/or Rule 1.1, all of SED's alleged violations of Section 451 and Rule 1.1 were considered in negotiating the Settlement Agreement. Joint Parties' evaluations considered their respective litigation risk concerning SED's alleged "lack of cooperation" violations.

2. The Conduct of the Utility

In evaluating the conduct of the utility in assessing the reasonableness of penalties, the Commission considers the utilities actions in: (1) preventing the violation; (2) detecting the violation, and (3) disclosing and rectifying the violation.⁴²

As summarized above, in addition to the 238 alleged "lack of cooperation" violations, SED alleged 89 violations of Section 451 related to SoCalGas's operations and maintenance, leak response, and record-keeping. SoCalGas disputes all these alleged violations. While the Joint Parties disagree whether SoCalGas violated Section 451 and/or Rule 1.1, SoCalGas, SED, and Cal Advocates considered all alleged violations of Section 451 and Rule 1.1 in the course of settlement negotiations and resolved these disagreements by the proposed Settlement Agreement. Because

⁴⁰ D.98-12-075, 1998 Cal. PUC Lexis 1018 *90; Resolution M-4846, Enforcement Policy at 17.

⁴¹ See SoCalGas's Motion to Dismiss the Safety and Enforcement Division's Alleged Lack of Cooperation Violations (Violations 93-326) (Nov. 17, 2020).

⁴² D.98-12-075, 1998 Cal. PUC Lexis 1018 *91; Resolution M-4846, Enforcement Policy at 17.

the Joint Parties evaluations of their respective litigation risk concerning SED's alleged violations regarding SoCalGas's operations and maintenance, leak response, and record-keeping were part of mediation negotiations and subject to the confidentiality provisions of Commission Rule 12.6, they are not described here.

3. Financial Resources of the Utility

The Commission has described this criterion as follows:

Effective deterrence also requires that staff recognize the financial resources of the public entity in setting a fine which balances the need for deterrence with the constitutional limitations on excessive fines. . . . The Commission intends to adjust the fine levels to achieve the objective of deterrence, without becoming excessive, based on each regulated entity's financial resources.⁴³

SED took SoCalGas's financial resources and condition into consideration in negotiating the settlement. SoCalGas serves approximately 21.8 million consumers in Southern California. In 2021 SoCalGas recorded⁴⁴ \$5.5 billion in operating revenue. The \$610.1 million penalty provided for in the proposed Settlement Agreement should be sufficiently substantial to deter future similar incidents.

In addition, the Settlement Agreement recognizes that SoCalGas will forgo rate recovery of significant costs related to the Incident.

4. Totality of Circumstances in Furtherance of Public Interest

The Commission has described this criterion as follows:

Setting a fine at a level that effectively deters further unlawful conduct by the subject utility and others requires that the Commission specifically tailor the package of sanctions, including any fine, to the unique facts of the case. The Commission will review facts which tend to mitigate the degree of wrongdoing as well as any facts that exacerbate the wrongdoing. In all cases, the harm will be evaluated from the perspective of the public interest.⁴⁵

The totality of the circumstances in furtherance of public interest supports approval of the Settlement Agreement. SoCalGas and SED agree that the well SS-25 leak was a significant

⁴³ D.98-*12-075, 1998 Cal. PUC Lexis 1018 *91; Resolution M-4846, Enforcement Policy at 19.

⁴⁴ By way of reference, at the time of the Thomas/Woolsey settlement, which is discussed below, SCE recorded \$14.9 billion in operating revenue. *See* Resolution SED-5A.

⁴⁵ D.98-12-075, 1998 Cal. PUC Lexis 1018 *94; Enforcement Policy at 19.

incident that occurred at a facility owned and operated by SoCalGas and which impacted thousands of SoCalGas's customers. However, approval of the Joint Parties' Settlement Agreement is in the public interest because it avoids the uncertainty inherent in continued litigation and obviates the need for the Commission to adjudicate the disputed facts, alleged violations, appropriate penalty, and remedies.

Moreover, as noted above, there are number of mitigating factors that demonstrate that approval of Joint Parties' settlement is in the public interest. The Settlement Agreement memorializes that SoCalGas will not seek to recover from ratepayers up to \$1.8 billion in costs to settle civil litigation with individual plaintiffs related to the Incident; \$126.4 million in costs related to a settlement with government plaintiffs; and \$461.8 million SoCalGas paid to meet relocation and other needs of the surrounding community during the Incident. SoCalGas has also fully mitigated the GHG impacts of the Incident, the cost of which the Settlement Agreement credits SoCalGas for in accordance with Public Utilities Code Section 972.⁴⁶ Consistent with Public Utilities Code Section 2104.7, the Settlement Agreement provides a significant sum towards the Aliso Canyon Recovery Account. SoCalGas has also agreed to: 1) forego recovery from ratepayers of \$108.8 million in costs related to Blade's Root Cause Analysis investigation; 2) reimburse SED for \$1.5 million in investigation and litigation costs related to I.19-06-016; 3) forego ratepayer recovery of \$376.5 million in outside counsel, litigation costs, and regulatory costs, as well as public affairs, community relations, and other support; 4) refund \$13.2 million to ratepayers for OFO noncompliance charges; and 5) refund \$5 million to ratepayers for balancing function costs.

5. Consistency with Precedent

The Commission has described the role of precedent as follows:

The Commission adjudicates a wide range of cases which involve sanctions, many of which are cases of first impression. As such, the outcomes of cases are not usually directly comparable. In future decisions which impose sanctions the parties and, in turn, the Commission will be expected to explicitly address those previously

⁴⁶ The Joint Parties settlement leaves open the opportunity for SoCalGas to seek further cost recovery for all items not addressed above.

issued decisions which involve the most reasonably comparable factual circumstances and explain any substantial differences in outcome.⁴⁷

The Joint Parties' Settlement Agreement is within the reasonable range of potential outcomes when compared to other settlements and outcomes in Commission proceedings. The following are examples of approved settlements and enforcement decisions involving safety incidents. An examination of these potentially relevant matters shows that the factual circumstances presented here are not directly comparable to those in other cases where penalties were assessed, but when examined in a broad manner, they show that the level of sanctions imposed here is certainly within the range previously imposed by the Commission.

1. 2019 Kincade Fire (Pacific Gas and Electric Company (PG&E)). In July 2022, the Commission approved a settlement between PG&E and SED related to the 2019 Kincade wildfire, which was caused by PG&E's facilities.⁴⁸ SED alleged three violations including violations of General Order 95 Rule 31.1 (pertaining to design, construction, and maintenance) and Rule 31.6 (pertaining to abandoned lines) as well as Section 451. The Kincade Fire resulted in the largest evacuation in Sonoma County history, which included the towns of Healdsburg, Windsor, and Geyserville. It burned more than 5,000 acres within the first three hours. There was substantial harm resulting from this incident: injuries to four individuals, \$385 million in property damage, and destruction of 77,758 acres of land and 374 structures. The settlement provided for PG&E to pay \$125 million in total penalties, including \$40 million in fines and \$85 million in disallowances. PG&E disputed all alleged violations in the settlement agreement.

2. PG&E Mark and Locate OIL. On January 17, 2020, the ALJ approved a settlement, with modifications, between PG&E, SED, and the Coalition of California Employees related to PG&E's falsification and undercounting of records related to PG&E's "Locate and Mark" program for identifying the location of underground gas and electric facilities. The settlement memorialized PG&E's violation of Public Utilities Code Section 451 based on, among other things: (1) PG&E's failure to use qualified electrical workers in the locating and marking of

⁴⁷ D.98-12-075, 1998 Cal. PUC Lexis 1018 *94-95; Resolution M-4846, Enforcement Policy at 21.

⁴⁸ Resolution SED-6. The Commission later issued an order granting the application for rehearing of Resolution SED-6 for the limited purpose of including a penalty analysis, but denied rehearing on all other grounds. See D.22-04-058. In July 2022, the Commission adopted the penalty analysis supporting Resolution SED-6. See Resolution SED-6A.

tickets, (2) taking steps to make a significant number of late tickets appear timely, (3) PG&E leadership's failing to respond to reports of inaccurate tickets, (4) PG&E management encouraging staff/supervisors to achieve zero late tickets while having inadequate staff, and (5) PG&E's failure to locate and mark facilities by the statutory deadline, which resulted in 67 dig-ins. The settlement further memorialized PG&E's violation of Rule 1.1 based on, among other things, PG&E's underreporting of late ticket counts to SED, even though some employees knew the counts were inaccurate. Pursuant to the approved settlement, PG&E paid a fine totaling \$110 million (\$44 million to the General Fund; \$66 million to shareholder-paid initiatives to address problems with the Locate and Mark program).

3. 2017/2018 Southern California Wildfires (Southern California Edison Company (SCE)). In July 2022, the Commission approved a settlement between SCE and SED related to the 2017 Liberty, Rye, Meyers, and Thomas fires and the 2018 Woolsey fire, which were caused by SCE's facilities.⁴⁹ SED alleged 51 violations in connection with the five fires, including violations of multiple specific requirements in General Order 95, Public Utilities Code Sections 399.2 and 316. There was substantial harm resulting from these incidents: for the Thomas and Woolsey fires alone there were 26 fatalities, 2,706 structures were destroyed, 621 structures damaged, and 378,842 acres burned. More than 263,000 customers suffered interruption in service for an extended period of time. The estimated GHG emissions from these fires, which totaled 7.9 million metric tons, were not mitigated by SCE. The Thomas Fire was the largest fire in California history at the time.⁵⁰ The settlement approved by the Commission provided for SCE to pay a total of \$550 million in penalties comprised of a \$110 million fine and \$440 million in shareholder-funded safety enhancements and disallowances. SCE did not contest three violations, but contested all others.

4. San Bruno Incident (PG&E). In April 2015, the Commission adopted decisions to resolve three enforcement proceedings against PG&E related to the 2010 San Bruno gas pipeline

⁴⁹ Resolution SED-5. The Commission later issued an order granting the application for rehearing of Resolution SED-5 for the limited purpose of including a penalty analysis, but denied rehearing on all other grounds. See D.22-04-057. In July 2022, the Commission adopted the penalty analysis supporting Resolution SED-5. See Resolution SED-5A.

⁵⁰ <https://www.latimes.com/california/story/2021-12-17/southern-california-edison-faces-550m-penalty-for-wildfires>.

explosion.⁵¹ On September 9, 2010, a 30-inch gas transmission pipeline exploded in a residential neighborhood in San Bruno engulfing the neighborhood in flames. The incident resulted in eight fatalities, injuries to 58 people, and it destroyed 38 homes and damaged 70 other homes.⁵² The Commission found 2,425 continuing violations of various provisions of 49 C.F.R 192 (Pipeline Safety), Mechanical Engineers Standard B.31.8, Public Utilities Code Section 451, Commission General Order 112, and Commission Rule 1.1.⁵³ The violations included deficiencies in PG&E's practices related to recordkeeping, engineering, design, and construction. Further, the Commission found that PG&E had lost or destroyed records with a culpable state of mind. The Commission penalized PG&E an amount totaling \$1.6 billion, including a \$300 million fine, \$850 million in shareholder funded gas infrastructure improvements, a \$400 million refund to PG&E customers, and \$50 million to implement 75 remedial measures proposed by SED.⁵⁴

IV. CONCLUSION

For the foregoing reasons, Joint Parties respectfully request that the Commission approve the attached the Settlement Agreement because it is reasonable in light of the whole record, consistent with law, and in the public interest.

⁵¹ See, *Modified Presiding Officer's Decision Regarding Allegations of Violations Regarding Pacific Gas and Electric Company's Operations and Practices with Respect to Facilities Records for its Natural Gas Transmission System Pipelines* (D.15-04-021); *Modified Presiding Officer's Decision Regarding Allegations of Pacific Gas and Electric Company's Violation Regarding Operation of its Natural Gas Transmission Pipeline System in Locations with Higher Population Density* (D.15-04-022); *Modified Presiding Officer's Decision Regarding Alleged Violations by Pacific Gas and Electric Company in Conjunction with the San Bruno Explosion and Fire* (D.15-04-023); *Decision on Fines and Remedies to be Imposed on Pacific Gas and Electric Company for Specific Violations in Connection with the Operation and Practices of its Natural Gas Transmission System Pipelines* (D.15-04-024).

⁵² D.15-04-023 at 3.

⁵³ D.15-04-024 at 2.

⁵⁴ D.15-04-024 at 1-2.

Respectfully submitted,

Respectfully submitted,

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October 28, 2022

ATTACHMENT A

**SETTLEMENT AGREEMENT BETWEEN SOUTHERN CALIFORNIA GAS
COMPANY AND THE SAFETY AND ENFORCEMENT DIVISION AND THE PUBLIC
ADVOCATES OFFICE OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION
RESOLVING PROCEEDING I.19-06-016**

This Settlement Agreement is entered into by Southern California Gas Company (“SoCalGas”), the California Public Utilities Commission’s Safety and Enforcement Division (“SED”) and the Public Advocates Office at the California Public Utilities Commission (“Cal Advocates”) (together, the “Parties”) to settle, resolve, and dispose of all issues, claims, violations, allegations, liabilities, and defenses, known and unknown, asserted and unasserted, related to the uncontrolled release of natural gas from Well SS-25 at the Aliso Canyon facility from October 23, 2015 through February 11, 2016 (the “Incident”) and all other issues within the scope of Commission docket I.19-06-016 (the “Proceeding”).

WHEREAS, SED alleged 321 violations (“Violations”) against SoCalGas related to the Incident;

WHEREAS, SED and Cal Advocates sponsored written testimony regarding some or all of the Violations;

WHEREAS, SoCalGas disputed all Violations in the Proceeding;

WHEREAS, over twenty days, between March 16, 2021 and May 19, 2021 the Administrative Law Judges (“ALJs”) held evidentiary hearings in which eight SoCalGas witnesses, one SED witness, three Cal Advocates witnesses, and one witness for Blade Energy Partners (“Blade”) provided oral testimony and 178 exhibits were admitted into the evidentiary record;

WHEREAS, the Parties submitted opening post-hearing briefs on May 9, 2022 and reply briefs on May 31, 2022;

WHEREAS, the California Air Resources Board (“ARB”) confirmed that SoCalGas exceeded its obligations under its mitigation agreement with the ARB to fully mitigate the greenhouse gas emissions resulting from the Incident;

WHEREAS, the Parties desire to enter into an agreement as a compromise of disputed claims and defenses in order to minimize the time, expense, and uncertainty of continued litigation;

THEREFORE, the Parties agree to the following terms and conditions as a complete, inseparable, and final resolution of all claims, violations and/or defenses made by SED and Cal Advocates and all claims and defenses raised by SoCalGas relating to the Incident and the Proceeding. This Settlement Agreement constitutes the sole agreement between the Parties concerning the Incident and the Proceeding. This Settlement Agreement shall become effective upon approval by the California Public Utilities Commission (“Commission”) in a written decision (“Effective Date”). In order to move forward efficiently with all references to the

Effective Date in this document, the Parties also agree to use their best efforts to seek expeditious approval of this Settlement Agreement and its terms.

I. PARTIES

The Parties to this Settlement Agreement are SED, Cal Advocates, and SoCalGas.

SED is a division of the Commission charged with promoting utility safety by gas, electric, and telecommunication safety audits and conducting incident investigations. SED enforces compliance with the Public Utilities Code and other relevant utility laws, federal safety standards, and the Commission's rules, regulations, orders, and decisions.

Cal Advocates is the independent consumer advocate at the Commission and is charged with advocating for the lowest possible monthly bills for customers of California's regulated utilities consistent with safety, reliability, and the State of California's environmental goals.

SoCalGas is a public utility subject to regulation by the Commission. SoCalGas serves approximately 21.6 million customers in a 20,000-square-mile service area in Southern California. SoCalGas is the owner and operator of the Aliso Canyon Underground Natural Gas Storage Facility ("Aliso Canyon") located in the Santa Susana Mountains in Los Angeles County, California. At the time of the Incident, Aliso Canyon was the largest underground natural gas storage facility in California and one of the largest in the United States.

II. AGREEMENT

- A. This is a negotiated proposed settlement of a disputed matter. The Parties acknowledge and agree that the terms of this Settlement Agreement were negotiated with consideration given to the entirety of the administrative record in the Proceeding.
- B. The Parties agree that this Settlement Agreement shall resolve all claims or violations arising from or related to the Incident or the Proceeding that have been or could have been alleged or pursued by SED or Cal Advocates against SoCalGas or Sempra Energy before the Commission.
- C. For purposes of a comprehensive and global settlement of the Proceeding, SoCalGas agrees to the following fines, disallowances, reimbursements, and refunds, totaling six hundred ten million one hundred thousand dollars (\$610.1 million):
 - 1. Monetary Fine.
 - a. SoCalGas agrees to a total fine of \$105.1 million in full resolution of all violations or claims related to the Incident. The \$105.1 million fine is offset by \$34.1 million pursuant to California Public Utilities Code Section 972 for costs incurred by SoCalGas in fully mitigating the gases emitted by the leak. The balance of the fine, \$71 million, will be paid to the Aliso Canyon Recovery Account

pursuant to California Public Utilities Code Section 2104.7, within forty-five (45) days of the Effective Date.

2. Disallowance, Refunds, or Reimbursements.

- a. SoCalGas agrees to the following with respect to the Aliso Canyon Incident Memorandum Account (“ACIMA”) and to close ACIMA upon Commission approval of the Settlement Agreement:¹
 - (i) SoCalGas shall forgo rate recovery of \$108.8 million in costs related to Blade’s Root Cause Analysis investigation; and
 - (ii) SoCalGas agrees to reimburse SED for \$1.5 million in investigation and litigation costs related to I.19-06-016.
- b. SoCalGas shall forgo rate recovery of \$376.5 million of costs tracked by SoCalGas and reported to the Commission in the monthly Incident-related cost report submitted by SoCalGas pursuant to the Executive Director’s December 23, 2015 letter *Re: Southern California Gas Shall Provide Information to CPUC Concerning Costs Associated with the Aliso Canyon Underground Storage Field Leak* (“Incident Cost Report”). This amount is comprised of unreimbursed Incident-related costs as follows:
 - (i) \$362,051,835 in outside counsel, litigation costs, and regulatory costs; and
 - (ii) \$14,448,165 million in public affairs, community relations, and other support.
- c. SoCalGas agrees that with respect to limitations on the use of Aliso Canyon following the Incident, SoCalGas will refund to ratepayers the following amounts, which will be refunded on a pro-rata basis based on the percentage of Operational Flow Order noncompliance charges and balancing function charges, respectively, from November 1, 2015 through July 23, 2019, within forty-five (45) days of the Effective Date:
 - (i) \$13.2 million for Operational Flow Order noncompliance charges²; and

¹ Records related to the account shall be kept for a minimum of three years after closure.

² An Operational Flow Order (OFO) occurs when the anticipated deliveries into SoCalGas’s system are greater than the maximum or less the minimum forecasted capacity of the system for a given day. When an OFO is issued customers financially responsible for managing and clearing transportation imbalances (Balancing Agent) will be required to balance supply and demand on a daily basis within a specified tolerance band or be subject to charges for noncompliance.

- (ii) \$5.0 million for balancing function rebate.

III. ACKNOWLEDGEMENT OF COSTS ALREADY INCURRED

In addition to the costs addressed in Section II above, SoCalGas has already stated it will not to seek to recover from ratepayers up to \$1.8 billion in costs to settle civil litigation with individual plaintiffs related to the Incident; \$126.4 million in costs related to a settlement with government plaintiffs; and \$461.8 million in relocation costs, including lodging, meal allowance, incidentals, and air purification equipment that SoCalGas provided to members of the surrounding community during the Incident.

IV. OTHER MATTERS

A. The Parties further agree as follows:

1. Solely for purposes of this Settlement Agreement and resolution of all issues related to I.19-06-016, SoCalGas admits in this Proceeding to a violation of California Public Utilities Code Section 451 based on the totality of the circumstances related to the uncontrolled release of natural gas from Well SS-25 at the Aliso Canyon facility from October 23, 2015 through February 11, 2016.
2. The Parties expressly agree and acknowledge that neither the admission in Section IV(A)(1) nor any act performed hereunder is, or may be deemed, an admission or evidence of the validity or invalidity of any specific allegations, violations, or claims of the SED, nor is the Settlement Agreement or any act performed hereunder to be construed as an admission or evidence of any wrongdoing, fault, omission, negligence, imprudence, or liability on the part of SoCalGas. This is a negotiated proposed settlement of a disputed matter and, except where explicitly specified, SoCalGas specifically and expressly denies any fault, negligence, imprudence, or violation with respect to the Incident.
3. The Parties' respective positions on the alleged violations and disputed issues of fact are reflected in the Parties' post-hearing briefs.
4. The Parties agree that SoCalGas shall retain the right to seek rate recovery, and Cal Advocates and SED shall retain the right to oppose rate recovery, of any costs tracked by SoCalGas and reported to the Commission in the monthly Incident Cost Report, not including any costs specifically identified in Section II above.
5. Notwithstanding Section IV(A)(2), Cal Advocates may refer to the admission in Section IV(A)(1) solely for the purpose of opposing an application by SoCalGas to recover Incident-related costs tracked in the Incident Cost Report.

6. The terms of the Settlement Agreement reflect the Parties' integrated agreement inclusive of the anticipated tax treatment of the settlement amounts identified herein. Having considered to the best of their abilities the potential tax treatment applicable to the settlement amounts, the Parties expressly agree that the settlement amounts do not require any adjustment to account for any tax benefits or liabilities that may be realized by SoCalGas or its shareholders.
7. Upon approval of this Settlement Agreement by the Commission, the Parties agree that:
 - a. SED and Cal Advocates shall take all action to obtain and support dismissal of the Proceeding, with prejudice;
 - b. The Parties shall withdraw all pending motions in the Proceeding;
 - c. SoCalGas shall withdraw and support dismissal of all its claims against SED; and
 - d. SoCalGas will close all regulatory accounts tracking Incident-related costs opened in response to the Incident.
8. The Parties agree to seek expeditious Commission approval of this Settlement Agreement and the terms of the settlement, and to use their reasonable best efforts to secure Commission approval of it without change or condition, including by filing a joint motion seeking approval of this Settlement Agreement and any other written filings, appearances, and other means as may be necessary to secure Commission approval.
9. The Parties agree to actively, mutually, and in good faith defend this Settlement Agreement if its adoption is opposed by any other party in proceedings before the Commission.
10. The Parties have bargained in good faith to reach the agreement set forth herein. The Parties intend the Settlement Agreement to be interpreted as a unified, interrelated agreement so that, if the Commission rejects, modifies, or conditions approval of any portion of this Settlement Agreement or modifies the obligations placed upon SoCalGas, SED or Cal Advocates hereunder, each Party shall have the right to withdraw from the Settlement Agreement. Consequently, the Parties agree to actively, mutually, and in good faith oppose any modification of this Settlement Agreement unless all Parties jointly agree to such modification in writing.
11. The Parties agree that no provision of this Settlement Agreement shall be construed against any of them because a particular party or its counsel drafted the provision.

12. The representatives of the Parties signing this Settlement Agreement are fully authorized to enter into this Settlement Agreement.
13. Neither SED nor Cal Advocates shall allege any new violations arising from or relating to the Incident or Proceeding, which could have been asserted, as the basis for future disallowances, violations, fines, or penalties.
14. The rights conferred and obligations imposed on any of the Parties by this Settlement Agreement shall inure to the benefit of or be binding on that Party's successors in interest or assignees as if such successor or assignee was itself a party to this Settlement Agreement.
15. Should any dispute arise between the Parties regarding the manner in which this Settlement Agreement or any term shall be implemented, the Parties agree, prior to initiation of any other remedy, to work in good faith to resolve such differences in a manner consistent with both the express language and the intent of the Parties in entering into this Settlement Agreement.
16. The Parties have assented to the terms of this agreement only for the purpose of arriving at the settlement embodied in this Settlement Agreement. In the event that the Settlement Agreement is rejected by the Commission, each Party expressly reserves its right to advocate in other current and future proceedings, positions, principles, assumptions, arguments, and methodologies which may be different than those underlying this Settlement Agreement, and the Parties expressly declare that, as provided in Rule 12.5 of the Commission's Rules of Practice and Procedure, this Settlement Agreement should not be considered as a precedent for or against any Party.
17. The Parties are prohibited from filing a petition for modification of a Commission decision approving this Settlement Agreement regarding any issue resolved in this agreement, unless such petition is agreed to and supported by all Parties.
18. This Settlement Agreement may be executed in counterparts.
19. The Parties hereby agree that this Settlement Agreement is entered into as a compromise of disputed violations and defenses in order to minimize the time, expense, and uncertainty of the outcome of all matters in this Proceeding and/or other litigation.
20. The Parties agree to work cooperatively and in good faith to try to obtain agreement from other parties to the Proceeding to join in the settlement.

21. Nothing in this Settlement Agreement relieves SoCalGas from any safety responsibilities imposed on it by law or Commission rules, orders, or decisions.
22. In reaching this Settlement Agreement, the Parties expect and intend that neither the fact of this settlement nor any of its specific contents, including but not limited to the admission in Section IV(A)(1) herein, will be admissible as evidence of fault or liability in any other proceeding before the Commission, except as provided in Section IV(A)(5), any other administrative body, or any court. In this regard, the Parties are relying on California Evidence Code Section 1152(a) and California Public Utilities Code Section 315. Furthermore, such use of this Settlement Agreement or any of its contents in any other proceeding before the Commission, any other administrative body, or any court would frustrate and interfere with the Commission's stated policy preference for settlements rather than litigated outcomes. See Pub. Util. Code Section 1759(a).
23. The Parties agree to continue to abide by the confidentiality provisions and protections of Evidence Code Section 1119 and Rule 12.6 of the Commission's Rules of Practice and Procedure, which governs the discussions, admissions, concessions, and offers to settle that preceded execution of this Settlement Agreement and that were exchanged in all efforts to support its approval. Those prior negotiations and communications shall remain confidential indefinitely, and the Parties shall not disclose them outside the negotiations without the written consent of all Parties. The Parties agree to coordinate as to the timing and content of mutual and/or individual public communications regarding the settlement. Notwithstanding the foregoing, SoCalGas and Sempra may make any necessary disclosures in order to satisfy their obligations under securities and other laws.
24. Subject to Section II.C above, each Party shall bear its own costs relating to this Proceeding.
25. The Parties mutually believe that, based on the terms and conditions stated above, this Settlement Agreement is reasonable in light of the whole record, is consistent with the law, and is in the public interest. The Parties, in reaching this settlement, have considered: (1) the risk, expense, complexity and likely duration of litigation; (2) the Commission's Enforcement Policy; (3) whether the settlement negotiations were at arms-length; (4) whether major issues were addressed; (5) whether the Parties were adequately represented; and (6) whether the Settlement Agreement is consistent with the law and prior Commission decisions.
26. This Settlement Agreement shall be interpreted pursuant to California law and may be enforced in proceedings before the Commission and in any court of competent jurisdiction.

IN WITNESS WHEREOF, the Parties hereto have duly executed this Settlement Agreement.

[Signatures immediately follow this page]

Dated: October __, 2022

Safety and Enforcement Division
California Public Utilities Commission

By Leslie L Palmer Digitally signed by Leslie L
Palmer
Date: 2022.10.11 12:35:57
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Leslie L. Palmer
Director, Safety and
Enforcement Division
California Public Utilities
Commission

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Dated: October 11, 2022

Public Advocates Office
California Public Utilities Commission

By Matt Baker

Matt Baker
Director, Public Advocates Office
California Public Utilities
Commission

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Dated: October 11, 2022

Southern California Gas Company

By 

Maryam Brown
President
Southern California Gas Company

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