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**FILED**

12/05/23

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

11:14 AM

11702002

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

### **ADMINISTRATIVE LAW JUDGE'S RULING ON SUPPLEMENTAL TESTIMONY**

This ruling orders supplemental testimony on the potential addition of an economic factor to the biennial assessment proposed in the September 2022 Staff Proposal.<sup>1</sup>

The Commission is committed to developing a plan to minimize or eliminate dependency on Aliso Canyon Natural Gas Storage Facility (Aliso Canyon). As the schedule in the August 29, 2023, ruling indicated, a proposed decision in 2024 will build off the pathways to closure outlined in the previously published Staff Proposal. These pathways include options such as bringing more clean energy resources online beyond those already planned, increasing

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<sup>1</sup> Assigned Commissioner's Ruling Entering into the Record Energy Division Proposal and Ordering Testimony, September 23, 2022, Attachment A, Energy Division's Staff Proposal for Portfolio and Next Steps, available at <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/natural-gas/aliso-canyon/aliso-canyon-staff-proposal-2022.pdf>.

electrification, and installing more building decarbonization measures to phase out the need for Aliso Canyon. However, per the Scoping Memo, in developing a plan to reduce dependency on Aliso Canyon the Commission must take into consideration “what are the impacts to system reliability and on electric and gas rates of reducing or eliminating the use of the Aliso Canyon Gas Storage Facility.”<sup>2</sup> The Scoping Memo also asks whether “the phase down and closure [should] be tied to thresholds (*e.g.* clean energy investments) or a fixed timeline, or both?”<sup>3</sup>

The Staff Proposal recommends that the Commission’s Energy Division conduct a biennial analysis of whether sufficient gas is expected to be available to reliably supply demand in Southern California and whether demand has declined by the proposed specified amounts. After publishing this analysis, the Commission would take stakeholder input and assess whether it is appropriate to change the storage limit at Aliso Canyon and the planned trajectory of reducing the storage limit over time.<sup>4</sup> The Staff Proposal outlines two analyses of gas sufficiency to meet forecasted demand: daily gas balance analyses of the summer and winter seasons and hydraulic flow modeling of winter and summer peak days. This ruling proposes to add a third method to its biennial analysis: price thresholds above which the storage limit at Aliso Canyon would be maintained during the two-year period covered by the biennial assessment due to system reliability risk. Prices and reliability are inter-related; thus, this

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<sup>2</sup> Assigned Commissioner’s Amended Phase 2 and Phase 3 Scoping Memo and Ruling, July 9, 2021, at 5.

<sup>3</sup> *Id.* at 8.

<sup>4</sup> Assigned Commissioner’s Ruling Entering into the Record Energy Division Proposal and Ordering Testimony, September 23, 2022, Attachment A, Energy Division’s Staff Proposal for Portfolio and Next Steps, at 19 - 20.

proposal would use high prices as a signal of the market's expectation that future demand will be high relative to supply, and system reliability could be at risk. Higher prices also result in higher expenses for ratepayers. This additional step of analysis would add another reliability and affordability safeguard to the biennial process as California reduces its reliance on Aliso Canyon.

Although this proceeding includes record that indicates that gas storage availability, combined with other factors, can moderate prices, there is no established method for evaluating how gas storage may affect prices in the future. Future gas prices are difficult to predict, as reflected by winter 2022-23's unprecedented high prices throughout the West. The Southern California price spikes of summer 2018, winter 2018-19, and February 2021 reflect diverse factors including unusual winter weather and prolonged pipeline outages, while long-term price shifts reflect national trends including changes in gas production technology and increased exports to serve international demand. Therefore, rather than attempting to quantify the relationship between Aliso Canyon gas storage and Southern California gas prices, this ruling provides a simple approach for using relative prices as a factor in the biennial process.

The discussion below presents the data proposed to be used in this approach and why those data may be useful indicators of whether gas prices in Southern California are at "normal" levels or are unusually high compared to the rest of the country and to past prices.

## 1. Forward-Looking Economic Impacts

This ruling considers the use of Henry Hub<sup>5</sup> forward prices, Southern California Citygate forward prices, and Southern California Citygate bidweek prices, each of which are explained below. Pacific Gas and Electric Company (PG&E) forward prices are also discussed for comparison.

Gas as a commodity is sold on a daily basis (“spot market”) as well as for delivery in future months or sets of months. Unless otherwise noted, the figures below utilize gas forward prices during the year for gas to be received in December of that year, as estimated and reported by Natural Gas Intelligence.<sup>6</sup> While Natural Gas Intelligence data are proprietary, selected pricing data from similar sources are published by the Energy Information Administration (EIA).<sup>7</sup>

Gas prices vary across the country and are often described in relationship to prices at “Henry Hub,” thus defined as “basis prices,” which are the difference between the price at a given receipt point and the Henry Hub price.<sup>8</sup> Henry Hub prices for December dropped in 2023 compared to the higher levels seen in 2021 and 2022, as seen in the figure below.

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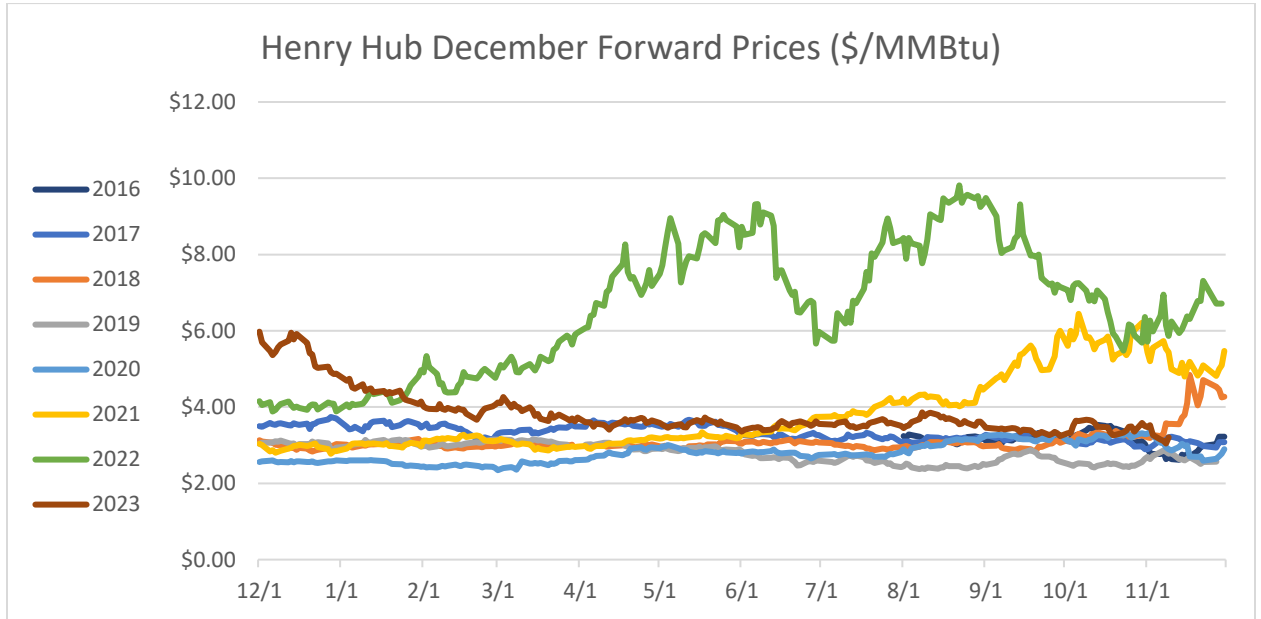
<sup>5</sup> Henry Hub is a gas receipt point located in Erath, Louisiana and is the site of 13 interconnected gas pipelines that provide gas to markets across the United States. Its location and infrastructure make Henry Hub a nexus between gas-producing and gas-consuming regions, and gas traded at Henry Hub sets the U.S. benchmark price. Local gas market prices at different receipt points across the country tend to be based on a differential to the Henry Hub price. This differential, or “basis price,” at a given receipt point tends to reflect regional market conditions, transportation costs, and the availability of transmission capacity to deliver gas to that point.

<sup>6</sup> For information about the methodology used by Natural Gas Intelligence to create its daily, weekly, and bidweek index prices see <https://www.naturalgasintel.com/wp-content/uploads/2020/05/NGIMethodology.pdf>. For information about its Forward Price Methodology see [https://www.naturalgasintel.com/wp-content/uploads/2020/11/ForwardLook\\_Methodology.pdf](https://www.naturalgasintel.com/wp-content/uploads/2020/11/ForwardLook_Methodology.pdf).

<sup>7</sup> See [https://www.eia.gov/dnav/ng/ng\\_pri\\_fut\\_s1\\_d.htm](https://www.eia.gov/dnav/ng/ng_pri_fut_s1_d.htm).

<sup>8</sup> See footnote 5 and associated text.

**Figure 1**



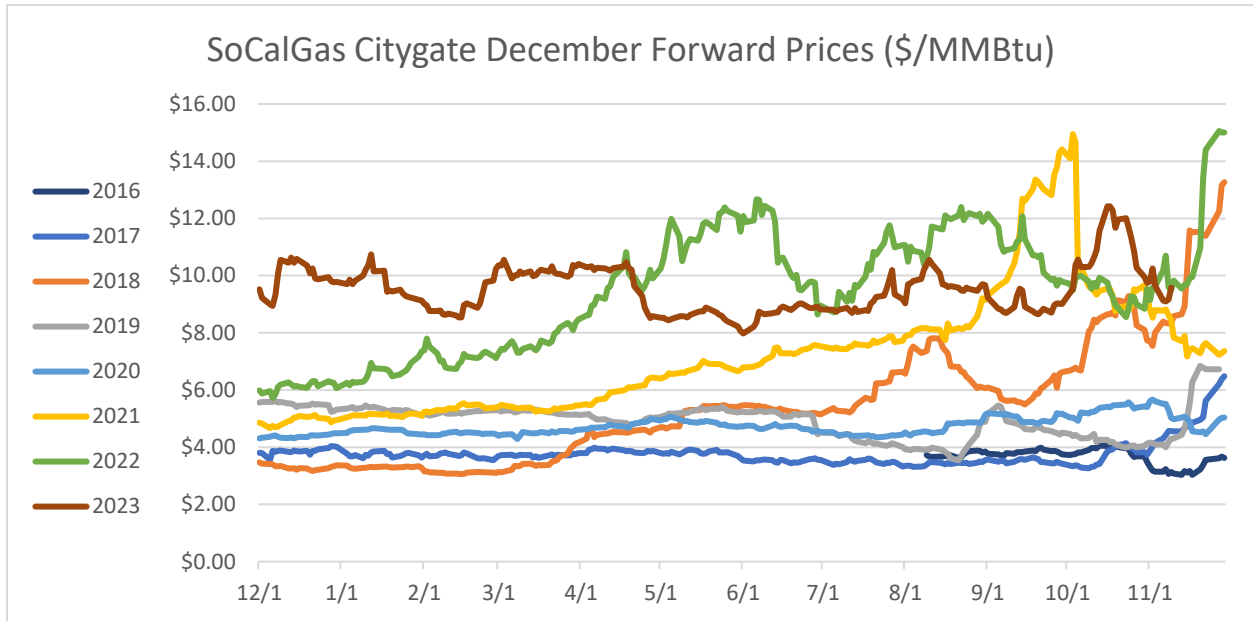
*Data source: Natural Gas Intelligence, Inc.*

Since 2016, Southern California gas prices have often risen well above Henry Hub prices. On November 1, 2023, the Southern California Gas Company (SoCalGas) Citygate forward price for this December<sup>9</sup> was nearly three times the Henry Hub forward price.

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<sup>9</sup> Natural Gas Intelligence estimates gas forward prices at a given receipt point by adding together the basis price at that receipt point and the Henry Hub price.

**Figure 2**

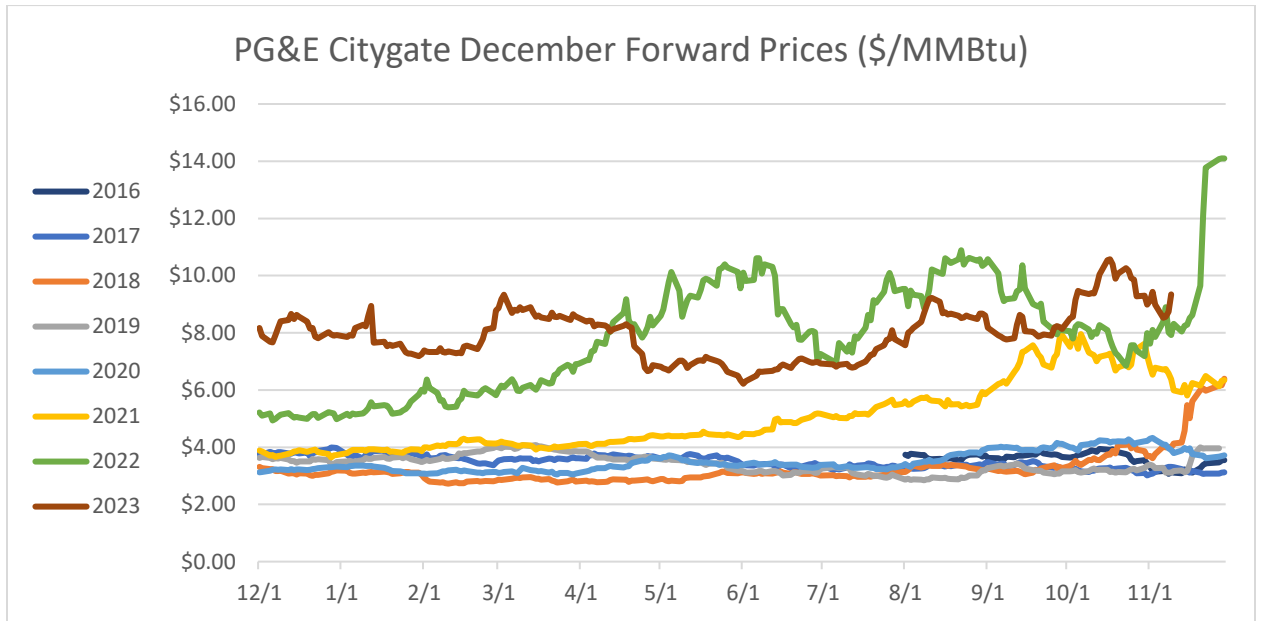


*Data source: Natural Gas Intelligence, Inc.*

PG&E prices are included as a comparison because PG&E’s gas system was operating relatively normally during the period in question while the SoCalGas system was under strain due to several pipeline outages and safety-related reductions in capacity. The most prominent of these was the Line 235-2 rupture and the subsequent reduction in pipeline capacity for gas delivered to SoCalGas’ “Northern Zone” between October 1, 2017, and November 10, 2023.

PG&E December forward prices have also risen in recent years, as shown in the analogous figure below. However, PG&E Citygate prices have been consistently lower than SoCalGas Citygate prices since the Aliso Canyon leak.

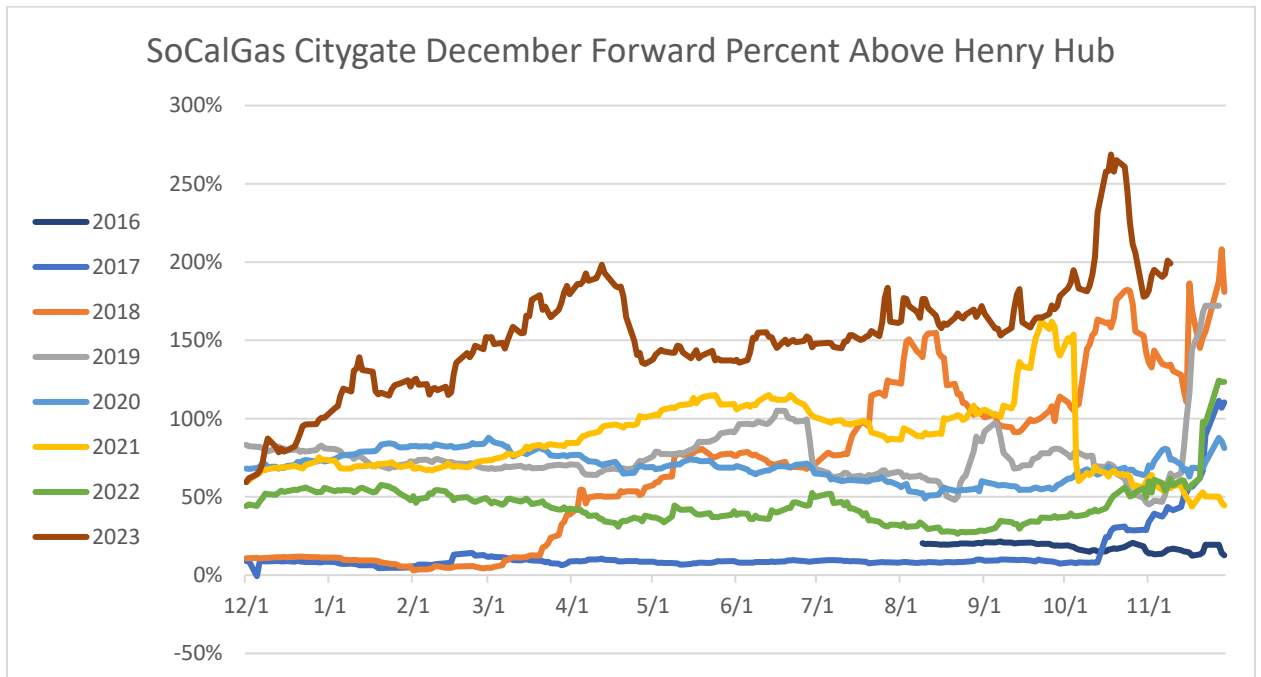
**Figure 3**



Data source: Natural Gas Intelligence, Inc.

SoCalGas forward prices have been substantially higher than Henry Hub in recent years, as shown in the figure below.

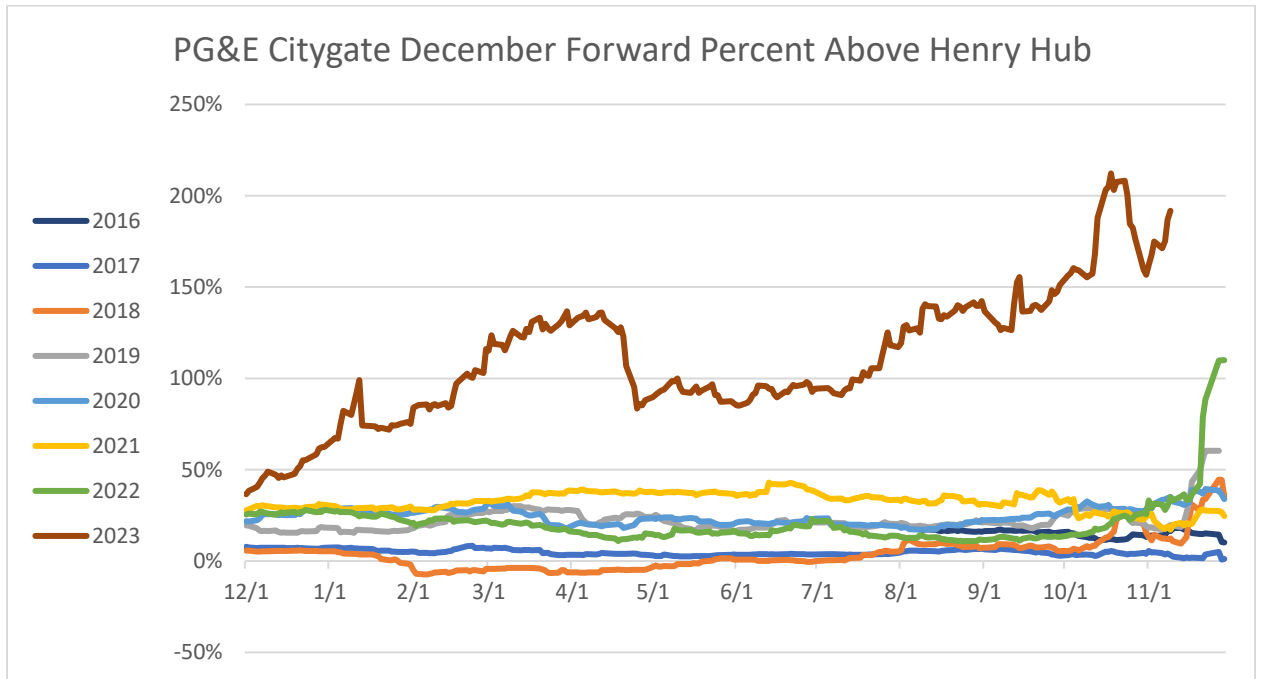
**Figure 4**



Data source: Natural Gas Intelligence, Inc.

PG&E Citygate December forward prices have generally been within 50 percent of the Henry Hub price, except sometimes at the very end of the year, until last winter, as seen in the analogous figure below.

**Figure 5**



*Data source: Natural Gas Intelligence, Inc.*

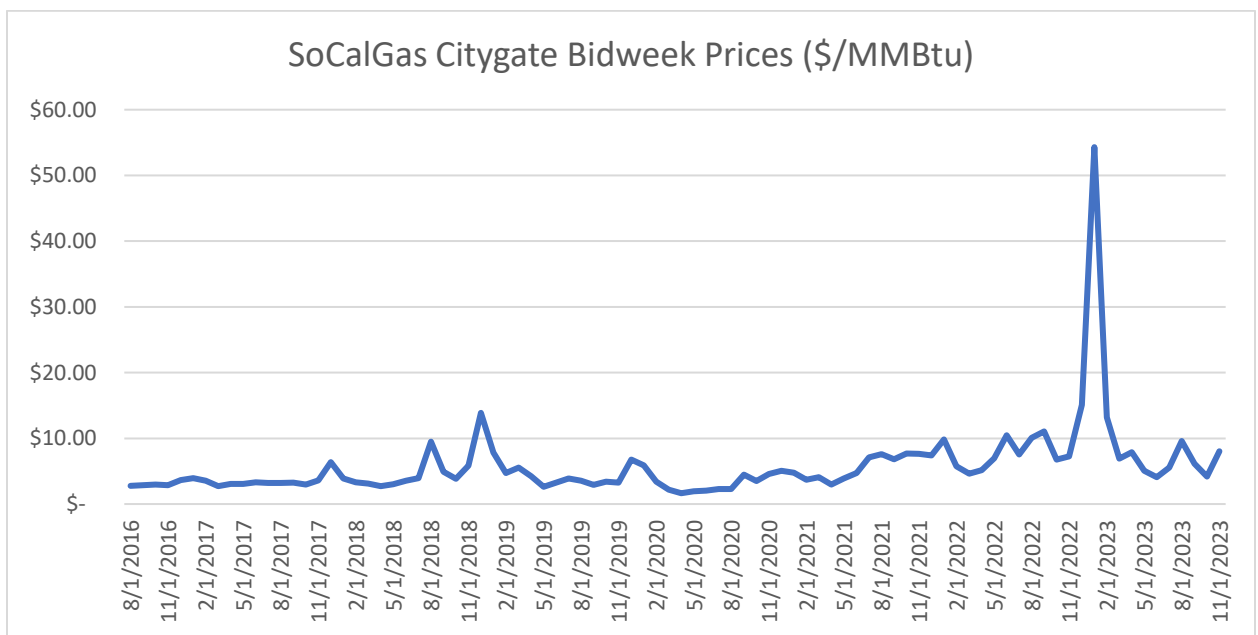
Gas prices throughout the Western states have also risen substantially in recent years, suggesting that comparison with earlier years’ prices may also be relevant. The price in the futures market can be specified at the time of purchase (“fixed”) or it can be linked to an index price (“indexed”).<sup>10</sup> The monthly index price is based on a weighted average of all the reported gas contracts traded at a given receipt point during “bidweek,” which is the last three trading days of the

<sup>10</sup> Gas traders voluntarily report trade data to price index developers authorized by the Federal Energy Regulatory Commission (FERC). Index developers charge a fee for access to their indices and include Natural Gas Intelligence, S&P Global/Platts, and Argus, among others.



month prior to the delivery month. Gas therefore may be bought months in advance through contracts indexed to bidweek prices that will be determined shortly before the gas is delivered.<sup>11</sup> The figure below shows each month’s bidweek price, as calculated by Natural Gas Intelligence, thus reflecting changes in gas prices over time.

**Figure 6**



*Data source: Natural Gas Intelligence, Inc.*

Figures 1 through 6 reflect how natural gas prices have varied recently between Northern California, Southern California, and nationally, and over time. The SoCalGas service territory, which experienced Aliso Canyon storage limitations and major pipeline outages during these years, often saw higher prices for December than the PG&E service territory until recently. Thus, the PG&E price (excluding recent price spikes) can serve as proxy for a normally

<sup>11</sup> For example, bidweek prices are referenced in Rule 41, which governs SoCalGas’ utility operations, regarding fair prices for specified baseload gas contracts.

functioning system. Recent price increases represent a challenge for both systems. The SoCalGas Citygate and Henry Hub data shown above, as updated over time, are the data proposed for use in the questions below.

## **2. Supplemental Testimony**

Supplemental written testimony is invited to address the following questions:

1. Please comment on the following potential addition to the biennial assessment process in the Staff Proposal to recommend changes to the storage level at Aliso Canyon. As proposed, this approach would constitute an additional factor to affect the recommendation that would otherwise result from the Staff Proposal's reliability analysis, and would result in maintaining Aliso Canyon's storage level if prices are above a threshold level:
  - a. If the price of natural gas in Southern California for the upcoming December is 50 percent or more above the Henry Hub price of natural gas for the upcoming December, then the biennial assessment conducted that year will recommend not reducing the storage level at Aliso Canyon during the two-year period covered by the biennial assessment.
    - i. For this calculation, the Southern California gas price for the upcoming winter will be represented by the SoCal Citygate average forward fixed price of gas for the upcoming December, or its successor, as published by Natural Gas Intelligence, averaged across the values published on each date from March 1 through May 30 of the year when the biennial assessment is published.<sup>12</sup>

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<sup>12</sup> The Staff Proposal suggests a schedule wherein Public Utilities Commission and Energy Commission staff gather modelling inputs during February through April and publish a draft biennial report for comment in June. Assigned Commissioner's Ruling Entering into the Record Energy Division Proposal and Ordering Testimony, September 23, 2022, Attachment A, Energy Division's Staff Proposal for Portfolio and Next Steps, at 20.

- ii. For this calculation, the national gas price for the upcoming December will be represented by the Henry Hub average forward price of gas for the upcoming December, or its successor, as published by Natural Gas Intelligence, averaged across the values published on each date from March 1 through May 30 of the year when the biennial assessment is published.
  - b. If the forward price of gas in Southern California for the upcoming December is 50 percent or more above the bidweek price of gas in Southern California during the previous three Decembers, the biennial assessment conducted that year will recommend not reducing the maximum storage level at Aliso Canyon during the two-year period covered by the biennial assessment.
    - i. For this calculation, the Southern California gas price for the upcoming December will be represented as described in 1(a)(i) above.
    - ii. For this calculation, the Southern California bidweek price of gas during the previous three Decembers will be represented by the SoCal Citygate average bidweek price, or its successor, as published by Natural Gas Intelligence, averaged across the values for December delivery in the preceding three years.
  - c. Per the Staff Proposal, these analyses would be conducted in June, for a storage level decision to take effect the following April 1.
2. Do you propose an alternative approach to incorporating economic considerations into the biennial analysis?

Supplemental testimony must focus on economic considerations in a biennial analysis. Each set of proposed supplemental testimony shall be limited to ten pages.

The due dates for service of proposed supplemental written testimony and other dates are as follows:

EVENT	DATE
Concurrent Supplemental Opening Testimony Served	December 19, 2023
Concurrent Supplemental Rebuttal Testimony Served	January 10, 2023
Concurrent Supplemental Sur-rebuttal Testimony Served	January 17, 2023
Motions for Hearings, Briefs and/or Objections to Receipt of Supplemental Testimony as Evidence Filed	January 22, 2023

With the proposed supplemental testimonies, each party shall include proposed exhibit numbers consistent with the established exhibit list. The testimonies shall include verifications per Rule 1.11 of the Commission’s Rules of Practice and Procedure.

Motions for evidentiary hearings (*i.e.*, to cross-examine witnesses), briefs, and/or objecting to the receipt of any proposed supplemental testimonies as evidence must be filed and served as provided in the schedule above. A motion for evidentiary hearings must state the witness(es) the party wishes to cross-examine, the general subject area of the cross-examination, and an estimate of the time needed for the cross-examination.

**IT IS SO 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. All parties are encouraged to serve written testimony based on the direction and schedule in this ruling.

Dated December 5, 2023, at San Francisco, California.

/s/ ZHEN ZHANG  
Zhen Zhang  
Administrative Law Judge