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Arocles Aguilar
General Counsel
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3214

RE: Notice Pursuant to Public Utilities Code Section 455.5

Dear Arocles,

The purpose of this letter is to provide notice to the Commission under section 455.5 of the California Public Utilities Code. As discussed below, the Aliso Canyon facility is currently in service for the benefit of our customers and has remained in service throughout the duration of the moratorium on injections. Indeed, today as we send this notice to the Commission, the Aliso Canyon storage field is available should our system require gas to maintain reliability to our over six million customers. Therefore, SoCalGas does not believe the provisions of section 455.5 apply. SoCalGas nevertheless provides this notice under section 455.5 in an abundance of caution to demonstrate our commitment to regulatory compliance and transparency, and in light of the fact that the process for obtaining authorization to resume injection operations at the facility is taking longer to complete than initially contemplated.

Section 455.5(b) of the California Public Utilities Code, among other things, directs regulated utilities to notify the Commission if any portion of a major facility has been out of service for nine consecutive months. The Commission has interpreted the phrase “out of service” for purposes of a gas storage field to mean the mechanical equipment used to inject or withdraw gas is not available to inject or withdraw gas at a rate of at least 25% of the capacity of the equipment. The apparent purpose of this statutory provision is to provide the Commission with notice if a portion of a major utility-owned facility is out of service for an extended duration, so that the Commission can protect ratepayer interests by opening an investigation to determine whether to disallow any expenses related to the facility. Section 455.5(c) of the statute requires the Commission to open up an investigation within 45 days of receiving such notification to determine whether to reduce the utility’s rates to reflect the portion of the facility that has been out of service. Section 455.5(c) further requires the Commission to notify the utility that rates associated with that facility are subject to refund from the date the order instituting the investigation is issued.

The ratepayer protections afforded by section 455.5—prospective tracking of the revenue requirement and expenses associated with an out of service asset for future review and potential disallowance by the Commission—were swiftly put in place by the Commission in December 2015 and March 2016. On December 23, 2015, the Commission directed SoCalGas to “track all costs associated with its actions related to the leaking well at the Aliso Canyon Natural Gas

storage field.” On March 22, 2016, the Commission issued Decision 16-03-031, which required SoCalGas to establish a memorandum account “to track its authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate the Aliso Canyon gas storage field.” The Decision notified SoCalGas that the “Commission will determine at a later time whether, and to what extent, the authorized revenue requirement and revenues tracked by the memorandum account should be refunded to SoCalGas’s customers with interest.” Thus, even if section 455.5 were triggered by the moratorium on injection activity at Aliso Canyon, the Commission took action to preserve its ability to disallow costs associated with the Aliso Canyon Storage Facility and protect ratepayers long before the provisions of section 455.5 would arguably have provided a mechanism for doing so.

SoCalGas has been precluded from injecting natural gas at the Aliso Canyon facility since the Department of Conservation’s Division of Oil Gas and Geothermal Resources (DOGGR) issued Order Number 1106 on December 10, 2015. The facility however, has remained in service and continues to provide a reliable source of energy for our customers and minimize regional energy reliability risks throughout the duration of the moratorium on injection activity. Indeed, Aliso Canyon’s continued service in support of the region’s reliability needs has been provided under the ongoing oversight and direction of the Commission.

During the leak, on January 21, 2016, the Commission directed SoCalGas to reduce the level of working gas at the Aliso Canyon Storage facility to 15 bcf to “reduce pressure within the Aliso Canyon natural gas storage facility to the greatest extent possible and minimize the rate of the gas leak, while ensuring energy reliability requirements so that customers are not left without heat and hot water and electricity outages do not occur.” SoCalGas complied with this directive and achieved this estimated level of available working gas inventory on January 23, 2016.

On June 2, 2016, the Commission authorized SoCalGas to withdraw the remaining 15 bcf of working gas at Aliso Canyon as needed “to ensure reliable gas supplies and avoid electric curtailments,” in accordance with strict protocols established by the Commission. On June 15, 2016, “[t]o minimize the risk of energy vulnerabilities [during the] summer,” the Commission directed SoGalGas “to maintain a minimal withdraw capability of 17.5 Mmcf per hour (420 Mmcf per day).” This directive required SoCalGas to maintain “an adequate balance of gas volume in the facility and a sufficient number of wells with adequate withdrawal capacity to reduce the risks of electricity curtailments.” SoCalGas complied with this directive as well. On September 28, 2016, the Commission authorized SoCalGas to reduce the minimum hourly withdrawal capability from 17.5 Mmcf (420 Mmcf per day) to 8.6 Mmcf (207 Mmcf per day). This letter reiterated that SoCalGas “must maintain. . . an adequate balance of gas volume in the facility and a sufficient number of wells with adequate withdrawal capacity to reduce the risk of electric curtailments.” Again, SoCalGas complied with this directive and SoCalGas remains in compliance with it today.

As implicitly acknowledged in each of the directives described above, Aliso Canyon has remained in service to provide customers with a valuable and reliable source of energy and protect the region against the risk of gas and electric curtailments. Thus, despite the moratorium on injection activity, Aliso Canyon has been and continues to be in service for the benefit of our customers.

Should the Commission believe that the provisions of section 455.5 do apply to portions of the Aliso Canyon facility, SoCalGas reserves the right to request that the Commission designate those portions of the Aliso Canyon facility as “plant held for future use.” Plant held for future use is defined by the Commission to refer to property held for future utility use under a definite plan, and the Commission allows such property to remain in rate base pending implementation of that definite plan. The Commission has previously determined that a “definite plan” requires the property to be put into service within ten years, and under section 455.5(f), facilities determined by the Commission as “plant held for future use” are expressly excluded from the provisions of section 455.5.

SoCalGas has taken the steps required by state law and regulations to resume injections and replenish the supply of natural gas at Aliso Canyon. We have made extensive physical, technological, and safety enhancements at the Aliso Canyon facility. This includes the replacement of the inner metal tubing of every well approved for injection—totaling almost 50 miles of new steel piping installed. We have introduced real-time pressure monitoring of each well, installed a fence-line methane monitoring system, and launched a new community notification system. This work has been completed under the supervision and oversight of DOGGR, and through the regulatory process set forth in Senate Bill 380, individual wells are approved by DOGGR as having satisfactorily completed a comprehensive suite of tests necessary to confirm their availability for injection. DOGGR approved the first well as having completed this suite of tests on April 12, 2016, and as of January 6, 2017, 34 wells had been approved by DOGGR as having completed the testing necessary to make them available for injection.

On November 1, 2016, SoCalGas requested authorization from DOGGR and the Commission to resume injection operations at the Aliso Canyon field, and anticipated a public meeting would be scheduled shortly thereafter. At the request of the Commission, this November 1 submittal was supported by a “fitness for service” letter and other information requested by DOGGR and the Commission. Throughout the regulatory review and approval process, SoCalGas has been responsive and supportive of the comprehensive safety review under way by both agencies. Although this process has taken longer than initially contemplated, we continue to anticipate that this safety review will be completed soon and that SoCalGas will be authorized to resume injection operations at Aliso Canyon.

SoCalGas thanks you for your continued engagement throughout this process and remains committed to answering any questions the Commission might have.

Sincerely,

By:


Sharon Tomkins

SoCalGas VP & General Counsel

cc: Edward Randolph, CPUC, Director of Energy Division
Dan Skopec, SDG&E, VP Regulatory Affairs