

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION G-3529
June 29, 2017**

R E S O L U T I O N

Resolution G-3529. Southern California Gas Company (SoCalGas) request for expedited approval of the gas storage Proposed Injection Plan and Injection Enhancement Memorandum between the Utility System Operator and the Gas Acquisition Department for Services to Maintain Summer Reliability.

PROPOSED OUTCOME:

- SoCalGas' request for the proposed gas storage Injection Enhancement Plan is approved. SoCalGas' request for temporary modifications to the System Operator Injection Capacity Limits is denied.

SAFETY CONSIDERATIONS:

- This resolution has an indirect positive impact on customer safety by ensuring system reliability through the summer and upcoming winter.

ESTIMATED COST:

- Unknown at this time.

By Advice Letter 5139, Filed May 19, 2017.

SUMMARY

This resolution approves the Southern California Gas Company (SoCalGas) gas storage Proposed Injection Enhancement Plan and Injection Enhancement Memorandum between the System Operator and the Gas Acquisition Department for services to maintain summer reliability through and including September 30, 2017. However, SoCalGas' request for temporary modifications to the System Operator Injection Capacity Limits in Rule 41 is denied.

BACKGROUND

SoCalGas was directed to develop and submit to the California Public Utilities Commission (Commission) a proposed storage injection plan to support system reliability for summer 2017 and the upcoming winter. SoCalGas was directed to immediately begin maximizing storage injections using the procurement capabilities of the SoCalGas Acquisitions Department to support SoCalGas' storage requirement in order to maintain reliable delivery to customers during peak demand periods for both core and noncore customers.

On October 25, 2015, SoCalGas notified the Commission of a natural gas leak at the Aliso Canyon Gas storage facility. In response, on January 6, 2016, Governor Brown proclaimed a state of emergency for Los Angeles County due to the long duration of the natural gas leak and well failure at Aliso Canyon. The proclamation directs all agencies of state government to "ensure a continuous and thorough response to this incident" and further directs the Commission to "take all actions necessary to ensure the continued reliability of natural gas and electricity supplies in the coming months."

Though the leak was sealed on February 17, 2016, due to the prohibition on gas injections at the Aliso gas storage facility reliability concerns remain, particularly on peak demand days. As Aliso Canyon's natural gas storage capacity has been critical to help meet peak demands for both electric and gas usage, the Commission is pursuing activities that could be quickly implemented to alleviate electric reliability and natural gas supply risks.

In an April 28, 2017, letter, SoCalGas expressed concern that the system's physical ability to provide reliable service on peak demand days and respond to abnormal operating conditions is at risk.

In an April 28, 2017, letter from SoCalGas' President and Chief Operating Officer Bret Lane to the California Independent System Operator, the California Energy Commission and the California Public Utilities Commission, SoCalGas states that the system's physical ability to provide reliable service on peak demand days and respond to abnormal operating conditions is at risk. In past years, injections into and withdrawal from storage were used to maintain system reliability when flowing supplies and customer demand were not in balance. However, with storage facilities currently at 40 percent less inventory than this same time last year, the depleted inventory levels reduce SoCalGas' ability to respond to

imbalances this summer and into the upcoming winter. SoCalGas states that storage acts as “shock absorbers” when fluctuations between supply and demand occur.

The Commission’s Executive Director, Timothy Sullivan, issued a letter on May 8, 2017, directing SoCalGas to develop and propose an agreement between the utility’s System Operator and the Gas Acquisition Department that would maximize storage injections for system reliability in gas storage facilities other than Aliso.

In response to SoCalGas’ letter of April 28, 2017, the Commission’s Executive Director, Timothy Sullivan issued a letter on May 8, 2017, directing SoCalGas to file a Tier 2 Advice Letter (AL) proposing an agreement between the utility’s System Operator and the Gas Acquisition Department that would maximize storage injections for system reliability in gas storage facilities other than Aliso. The letter also authorized SoCalGas to file a separate Advice Letter seeking the establishment of a memorandum account to track the costs of the proposed storage injection plan.

On May 19, 2017, SoCalGas filed an expedited Advice Letter requesting approval of an Injection Enhancement Plan between the utility’s System Operator and the Gas Acquisition Department.

The Advice Letter includes an Injection Enhancement Memorandum to document the activities and the agreement between the SoCalGas System Operator and the SoCalGas Gas Acquisition Department.

NOTICE

Notice of AL 5139 was made by publication in the Commission’s Daily Calendar. SoCalGas states that a copy of the Advice Letter was mailed and distributed in accordance with Section 3.14 of General Order 96-B.

PROTESTS

On May 26, 2017, the Indicated Shippers filed a response to AL 5139 requesting clarification and mitigation of the impact on noncore customers and their suppliers. The Indicated Shippers propose three mitigation measures: 1) Noncore shippers be reimbursed for Backbone Transmission Service charges incurred for

supplies that are windowed as a result of Capacity Reallocation; 2) High OFO noncompliance charges for noncore shippers should be waived retroactively if a High OFO would not have been triggered “but for” the Capacity Reallocation; and 3) Costs currently allocated to noncore transportation rates for balancing should be adjusted to reflect the increased risk of High OFO events and receipt point capacity reductions arising from Capacity Reallocation.

On June 1, 2017, SoCalGas filed a reply to the Indicated Shippers’ response. In its reply, SoCalGas states that Indicated Shippers’ response is inconsistent with General Order 96-B, which states that a response should unconditionally support the relief requested in the advice letter. SoCalGas also argues that the additional release of 100,000 Dth is not a capacity reallocation but reserved capacity for balancing that would be left unused and is now being released in Cycle 1 rather than later in the gas day. SoCalGas also states that maximizing storage inventories benefits noncore customers by maintaining minimum withdrawal capacities to meet noncore customers’ peak demand periods during this upcoming summer season and avoid gas curtailments.

DISCUSSION

The Energy Division has reviewed SoCalGas AL 5139 with consideration to the response filed by Indicated Shippers. SoCalGas’ proposed Injection Enhancement Plan should be approved. However, SoCalGas’ request to temporarily modify the System Operator Capacity Limits should be denied.

In its advice letter, SoCalGas proposes a number of system operating modifications as part of its plan to increase storage injection at facilities other than Aliso and maximize storage.

SoCalGas proposes a number of system operating modifications as part of its plan to increase storage injection and maximize storage. SoCalGas’ current rules allow for 200,000 dekatherms (Dth) to be reserved and set aside for use in the balancing function. As of May 4, 2017, SoCalGas began releasing 100,000 Dth of the injection capacity reserved for balancing in Cycle 1 for customers to use. In addition, SoCalGas has rescheduled or deferred, to the extent operationally feasible, shutdowns or operational deviations that impact injection capacity, excluding from consideration any shutdowns or work related to equipment reliability, safety, or compliance.

The System Operator will set a portion of the storage injection capacity allocated to the system balancing function for injection nominations every month before Bid Week¹ for the following month in Cycle 1. Next, on the day before a gas flow day, if additional capacity can be made available for Cycle 1 by the System Operator, the additional capacity will be reflected on Envoy.² Subsequently, on each flow day morning, the System Operator will determine whether additional injection capacity allocated to the system balancing function can be made available for injection in Cycle 3.

At each notification of additional injection capacity, the Gas Acquisition Department will make reasonable efforts to use the quantity made available. Though typically the utility's Gas Acquisition Department uses its allocated storage inventory primarily for winter reliability, SoCalGas states that the Gas Acquisition Department plans to accelerate injections to the extent additional system firm injection rights become available to build inventory this summer.

SoCalGas is also requesting authority to post injection capacity that may exceed the physical capacity of the storage fields for a prospective or current gas day.

Currently, the utility's System Operator may make available the physically available injection capacity of the storage fields, adjusted for any outages at the fields. SoCalGas proposes to add an additional variable beyond the physical injection capacity. SoCalGas states that on some days, injection capacity is available beyond the physical limits due to under-scheduling of gas into the system, and/or when customers schedule withdrawal. The incremental injection capacity would equal the prior cycle scheduled withdrawal plus the withdrawal capacity used for balancing. SoCalGas argues that this will increase the overall system capacity to enable more flowing supplies to be scheduled on the system for injection. SoCalGas also states that this proposed capacity modification would not increase the frequency of High Operation Flow Orders (OFO) or late cycle system nomination reductions. SoCalGas' proposed incremental injection capacity would end September 30, 2017.

¹ Bid Week are the five business days preceding the first of the month.

² Envoy is SoCalGas' online schedule and delivery website for end-use customers, shippers and energy marketers.

On May 26, 2017, the Indicated Shippers filed a response to AL 5139 requesting clarification and mitigation of the impact on noncore customers and their suppliers. In its reply, SoCalGas argues that the Indicated Shippers' response to the Advice Letter is outside the relief provided in General Order 96-B and also states that maximizing storage inventories benefits noncore customers by maintaining minimum withdrawal capacities to meet noncore customers' peak demand periods during this upcoming summer season and avoid gas curtailments.

Though SoCalGas correctly notes that the Indicated Shippers' response to the Advice Letter is outside the relief provided in General Order 96-B, Indicated Shippers' response provided information that merits our review. Pursuant to our review, we decline to adopt the mitigation measures recommended by Indicated Shippers.

As noted in the May 8 letter to SoCalGas, the Commission acknowledges the importance of storage inventory to system reliability during peak demand periods for both core and noncore customers. We are not convinced by Indicated Shippers that the Injection Enhancement Plan would place further burden on noncore customers solely to benefit core supply rates. We agree that core storage reduces the risk to the core and provides winter reliability, but as clearly noted in the Advice Letter, the proposed plan to provide for summer peak reliability expires on September 30, 2017, before the arrival of winter. SoCalGas correctly states in its reply that "the fundamental purpose of the Injection Enhancement Plan is to comply with Commission directives to accelerate and prioritize storage injections to increase storage inventories to meet CPUC mandated withdrawal capacities, determined to be required by the CPUC - primarily for Noncore Electric Generation demand in the summer in order to avoid curtailments."

However, we have considered the impact on noncore customers of SoCalGas' proposed modification to post injection capacity exceeding the physical capacity of the storage fields for a prospective or current gas day and the possibility of increased High OFOs or late-cycle nomination reductions. Although we acknowledge that this would effectively enable more flowing supplies to be scheduled on the system for injection, we find it reasonably likely that an increase in High OFO or late cycle system nomination reductions could occur.

SoCalGas should be able to maximize storage inventory without posting capacity beyond the physical injection capacity.

Records show that several High OFO days occurred in April, even without the implementation of SoCalGas' proposed increase to the posted injection capacity. Whether or not an increase in High OFOs occurs, High OFOs do have an impact on noncore customers. Noncompliance charges would be incurred by noncore customers. Supplies could be windowed, resulting in additional interstate shipper charges. Considering the other additional modifications proposed, SoCalGas should be able to maximize storage inventory without posting capacity beyond the physical injection capacity. Therefore, we deny SoCalGas' request to post injection capacity exceeding the physical capacity of the storage fields for a prospective or current gas day and any changes to SoCalGas Rule 41.

In Indicated Shippers' response to AL 5139, Indicated Shippers propose three mitigation measures, all relating to revisions to charges or rates allocated to noncore shippers. Given that SoCalGas' request to change Rule 41 is denied, no changes to SoCalGas' current practices for scheduling are necessary to adopt the Injection Enhancement Plan. Therefore, exemptions from penalties for a customer's noncompliance with the rules would be outside the scope of this request. If Indicated Shippers have issue with SoCalGas' current rules or tariffs, the Commission has other forums to address those items. Furthermore, SoCalGas has not proposed a cost recovery or cost recovery mechanism at this time.³

Recognizing the urgent nature of ensuring reliable gas delivery during peak summer periods and with the summer season quickly approaching, we grant SoCalGas' request for approval of the Injection Enhancement Plan and the Injection Enhancement Memorandum between the System Operator and the Gas Acquisition Department effective May 8, 2017, which is the date of the System Reliability Directive.

When the Injection Enhancement Plan and the Injection Enhancement Memorandum expire on September 30, 2017, we require SoCalGas to provide the Commission with a status report of storage inventories, costs incurred from the

³ SoCalGas has filed Advice Letter 5140 requesting to establish the Injection Enhancement Cost Memorandum Account.

Plan, and an analysis of system reliability for the upcoming winter. SoCalGas should provide this information through an Advice Letter filing.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this Resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived “in an unforeseen emergency... .” The Commission’s Rules of Practice and Procedure also provides that public review and comment may be waived or reduced in an “unforeseen emergency situation” specifically where there are “[a]ctivities that severely impair or threaten to severely impair public health or safety....”

On January 6, 2016, Governor Brown declared a State of Emergency due to the Aliso Canyon leak, which gives the Commission broad powers to ensure the reliability of the natural gas system.

Article 10 of the emergency order states:

The California Public Utilities Commission and the California Energy Commission, in coordination with the California Independent System Operator, shall take all actions necessary to ensure the continued reliability of natural gas and electricity supplies in the coming months during the moratorium on gas injections into the Aliso Canyon Storage Facility.

The 30-day comment period was reduced pursuant to these authorities and notification of the shortened comment period was included with the cover letter that was circulated with the Draft Resolution. This draft resolution was mailed for comments on June 9, 2017. No comments were filed.

FINDINGS

1. In an April 28, 2017, letter, SoCalGas informed the California Independent System Operator, the California Energy Commission, and the California Public Utilities Commission of its system status for the summer of 2017 and the upcoming winter.

2. On May 8, 2017, SoCalGas was directed to immediately begin maximizing storage injections using the procurement capabilities of the SoCalGas Acquisition Department to support storage requirements for system reliability.
3. On May 19, 2017, SoCalGas filed an expedited Advice Letter requesting approval of an Injection Enhancement Plan between the utility's System Operator and the Gas Acquisition Department.
4. The Indicated Shippers filed a response to Advice Letter 5139 requesting clarification and mitigation of the impact on noncore customers and their suppliers on May 26, 2017.
5. SoCalGas filed a reply to Indicated Shippers' response on June 1, 2017.
6. Adequate storage inventory is necessary in order to maintain reliable delivery to customers during peak summer demand periods for both core and noncore customers, including noncore electric generation.
7. Modifications to SoCalGas Rule 41 are not necessary at this time.
8. Exemptions from a customer's noncompliance with the rules are outside the scope of this request.
9. SoCalGas has not proposed a cost recovery or cost recovery mechanism at this time.
10. Due to the urgent nature of ensuring reliable delivery during peak summer periods and with the summer season quickly approaching, SoCalGas' request for approval of the Injection Enhancement Plan and the Injection Enhancement Memorandum should be effective May 8, 2017, which is the date of the System Reliability Directive.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Gas Company in Advice Letter 5139 for approval of the Injection Enhancement Plan and the Injection Enhancement Memorandum between the utility's System Operator and its Gas Acquisition Department is approved.
2. Southern California Gas Company's request to change Rule 41 is denied.

3. Southern California Gas Company shall file an advice letter containing a status report of storage inventories, costs incurred from the Injection Enhancement Plan, and an analysis of system reliability for the upcoming winter within thirty days of the expiration of the Injection Enhancement Plan and the Injection Enhancement Memorandum on September 30, 2017.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on June 29, 2017; the following Commissioners voting favorably thereon:

/s/TIMOTHY J. SULLIVAN

TIMOTHY J. SULLIVAN
Executive Director

MICHAEL PICKER
President

CARLA J. PETERMAN
LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
Commissioners