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10.30.17 SoCalGas Reply Letter re Aliso Canyon Reliability

Additional submitted attachment is included below.

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October 30, 2017

Michael Picker, President, California Public Utilities Commission
Robert B. Weisenmiller, Chair, California Energy Commission

Dear President Picker and Chair Weisenmiller:

We have received your October 17, 2017 letter and share your concerns about being able to meet our mutual objective to provide reliable service to Southern California Gas Company (SoCalGas) customers, at just and reasonable rates, this coming winter. We also share the concerns expressed by the Federal Energy Regulatory Commission (FERC) in their "Winter 2017-2018 Energy Market Assessment" that "limitations at Aliso Canyon during periods of the highest winter demand could challenge regional stability and increase natural gas and electricity prices."

State Agencies Have Determined Aliso Canyon is Safe

We are very concerned by your instruction to identify mitigation to these concerns that does not, as described in your letter, include "enhanced reliance on Aliso Canyon." Aliso Canyon is safe and has been safe and available for many months. The leak at Aliso Canyon occurred two years ago. Since that time, Aliso Canyon has been subjected to months of rigorous inspection and analysis, has been tested to stringent review standards, has passed batteries of tests, and is now operated with new safety protocols. **The California Public Utilities Commission (CPUC) and Division of Oil and Gas and Geothermal Resources (DOGGR) formally determined that Aliso Canyon is safe to operate, any risks of failure had been identified and addressed, and well integrity had been verified.**[1] In our view, any decision to not return Aliso Canyon to normal service has no relation to safety, well integrity, or risk of failure.

Despite these determinations, the CPUC has continued to maintain restrictions on the use of Aliso Canyon, including: (1) withdrawal protocols, which treat Aliso Canyon as an "asset of last resort" and only allow withdrawals after all other alternatives – including noncore curtailments (e.g., curtailment of electric generators, refineries, and other large commercial and industrial

[1] *See, e.g.*, July 19, 2017, SB 380 Findings and Concurrence Regarding the Safety of the Aliso Canyon Gas Storage Facility, available at: http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/News_and_Updates/OpenLettertoSoCalGasandPublic.pdf

consumers) – have been exhausted; and (2) inventory limitations, which limit available inventory and restrict our ability to withdraw and inject gas at Aliso Canyon. As the operator, we see no reason why using Aliso Canyon should be more restricted than other storage facilities. **We are not aware of any other facility in the nation that has undergone the same degree of testing to validate its safety and integrity, or one that is operated and maintained pursuant to such strict and comprehensive policies and procedures**. In our opinion, Aliso Canyon should be permitted to be used in the same manner as our other fields, consistent with DOGGR and federal regulations, and consistent with CPUC's and DOGGR's validation of the field's safety. This includes: removal of withdrawal protocols, removal of the current inventory minimum and maximums (allowing SoCalGas to operate within the reservoir pressure approved by DOGGR), and removal of the systemwide withdrawal rate requirements**. Not being able to use Aliso Canyon only heightens concerns raised in your letter, raised by FERC in its assessment, and raised to you and your agencies by SoCalGas**.

California is Faced with Numerous Energy Risks this Winter

We have been raising concerns with you and your agencies since the CPUC and DOGGR completed their comprehensive review of the safety of Aliso Canyon on January 17, 2017 (sample prior communications are attached as Attachment A for your reference, with emphasis added). These concerns continue to escalate as we enter the winter season:

- SoCalGas' "Winter 2017-2018 Technical Assessment" (Attachment B) indicates increased risk of noncore customer curtailments and/or reliance on potentially costlier out-of-state electric generation, which includes natural gas, coal, and nuclear generation resources;

- Southern California has recently seen dramatic increases in natural gas price volatility, with prices at our City Gate that were 350% above the border price on October 23, 2017. Because of our concerns with market price volatility, we are also sending a letter to FERC to inform them of the price differentials and volatility we are seeing in the market (Attachment C).

- SoCalGas' remaining storage fields have seen increased cycling and use to support customer demand. This increases outage risk and requires us to rely on fields that have not undergone the same safety enhancements as Aliso Canyon.

From an engineering, technical, safety, and market perspective, returning Aliso Canyon to normal operation and removing CPUC-mandated systemwide withdrawal requirements is the most effective way to address these issues. Aliso Canyon has been determined to be safe, Aliso Canyon is available, and, because of its size and location, Aliso Canyon is uniquely able to support the natural gas demands of the Los Angeles Basin and mitigate the risks to energy reliability to our region and its consumers.

Without Aliso Canyon, SoCalGas' System is Less Resilient and Flexible, and Energy Reliability is at Risk

Today, in part due to state regulatory and administrative choices, our system is more constrained and less resilient and flexible. SoCalGas is currently managing outages or reductions on four major pipelines in our service territory – Line 235, Line 2000, Line 3000, and Line 4000 – which limits flowing supply into the system. To address unexpected conditions such as these, prudent planning incorporates contingencies to provide sufficient system resiliency and flexibility. For SoCalGas, our system is designed to use our storage assets as part of normal operations and as contingencies to create system resiliency and flexibility. In past years, injections into and withdrawals from storage, primarily Aliso Canyon, have been sufficient to maintain system reliability, even when difficult and unexpected conditions arose. As noted by the FERC, in its Winter 2017-2018 Energy Market Assessment, **SoCalGas currently holds about 65 billion cubic feet (Bcf) of gas, the lowest on record for this time of year since 2001, and far below the 118 Bcf the system has averaged over the past five years**. Further, approximately one-third of this 65 Bcf is Aliso Canyon inventory and only usable as "a last resort," and much of the remaining inventory will be unavailable because of systemwide withdrawal requirements and declining field withdrawal rates.

To better assess the risks to energy reliability and respond to your October 17, 2017 letter, we prepared the attached "Winter 2017-2018 Technical Assessment," which details the energy reliability challenges facing Southern California as we head into the winter and identifies potential mitigation measures. Based on our analysis, the SoCalGas system will likely *not* have sufficient supplies to meet all customer demand during weather events, unplanned supply interruptions, or unexpected hourly, daily, and seasonal demands. Although we cannot identify an option that will fully address the reliability and price volatility risks we now face because of the limited time and opportunities available to fill Aliso Canyon, allowing Aliso Canyon to be utilized in the same manner as our other storage facilities and removing systemwide storage withdrawal requirements are the most effective ways to mitigate these risks. Because of Aliso Canyon's size, location, and operating capabilities, we are aware of no other adequate physical or supply side mitigation, and demand side mitigation is not able to fully replace the flexibility and resiliency provided by Aliso Canyon. **Without adequate storage supplies and the ability to use those supplies this winter, adherence to the CPUC withdrawal protocols and curtailment rules could necessitate noncore customer curtailments and lead to increased price volatility.**

SoCalGas' primary obligation is to its residential and small commercial and industrial customers (core customers), and we are cautious, but optimistic, that we can maintain service to our core customers this winter. Maintaining service to our core customers, however, will likely trigger CPUC-approved Tariff Rule 23, which authorizes SoCalGas to directly reduce load, when needed, by curtailing customers, similar to the electric demand response programs. These CPUC-approved rules authorize SoCalGas to limit or reduce service to noncore customers, starting with electric generators, and including oil refineries and other large industrial and commercial customers.

State Policies Have Created or Increased Winter Risks

As we have indicated to you and your agencies, the current policy decision by the State to use Aliso Canyon as "a last resort," coupled with the potential for planned and unplanned supply and demand conditions, places energy reliability at risk in Southern California. Our concerns are echoed by numerous federal agencies with responsibility for energy reliability and safety, including the Department of Energy, FERC, and the Pipeline and Hazardous Materials Safety Administration (letters and relevant pages from federal assessments are attached as Attachment D for your reference, with emphasis added). We believe current state policy to restrict the use of Aliso Canyon, despite the facility being determined safe to operate, puts energy reliability at risk.

State policy to restrict Aliso Canyon has removed our most important operational contingency. As we have stressed: events occur that can impact natural gas supply. As mentioned, SoCalGas is currently managing outages or reductions on four major pipelines in our service territory. As recognized by FERC, these system risks are potentially "magnified by upstream pipeline issues, like further outages or wellhead freeze-offs." Without Aliso Canyon, our system is less resilient, less flexible, and our customers are at an increased risk of curtailment.

State policy to maintain systemwide withdrawal rates restricts the use of all SoCalGas storage facilities. On March 16, 2017, the CPUC instructed SoCalGas that it "should maintain a system wide storage withdrawal capacity of 2.065 Bcfd beginning June 1, 2017." (*See* March 16, 2017 Letter from CPUC Executive Director Sullivan, Attachment E). This amount was to be "increased as quickly as possible to 2.420 Bcf per day." To maintain the systemwide withdrawal rate, SoCalGas must maintain the maximum withdrawal rate at each field, which significantly limits the usable inventory at each facility. This, in effect, imposes a withdrawal protocol on all SoCalGas storage fields. As a result, SoCalGas has less flexibility in using our storage assets and, to help maintain mandated systemwide withdrawal rates, SoCalGas has proposed deferring non-safety related maintenance work, delayed well testing at Aliso Canyon, and has been instructed to delay full implementation of our Storage Safety Enhancement Plan (SSEP) at La Goleta, Honor Rancho, and Playa del Rey. **This means that several wells at these fields are operating without a dual barrier of safety.**

State policy to require SoCalGas to rely on storage facilities that have not completed safety enhancements, instead of operating Aliso Canyon, has increased the risk of outages. Because restrictions have been imposed on Aliso Canyon, SoCalGas must rely on our other storage facilities – Honor Rancho, Playa del Rey, and La Goleta – to support our customers. These facilities are rapidly moving to and from injection and withdrawal to maintain system reliability for both core and noncore customers. **This type of back-and-forth operation can lead to a greater risk of an outage requiring maintenance and, potentially, the loss of the ability to withdraw gas. The restrictions on Aliso Canyon create stresses and strains that could impact the ability of our other storage fields to fulfill their critical role in supporting energy reliability**. These activities leave little margin for unplanned system outages and increase the probability of challenges to reliability.

No Identified Mitigation Measures Can Fully Mitigate Reliability Risks This Winter, or Replace Aliso Canyon

In your October 17, 2017 letter, you also request measures to enhance SoCalGas' provision of reliable service to core and noncore customers. We are aware of no measures that will fully mitigate risks this winter or replace the lost flexibility and resiliency provided by Aliso Canyon. Already, SoCalGas' Gas Acquisition department, on behalf of our core customers, has increased its delivery of pipeline supply at the Otay Mesa receipt point, and SoCalGas' System Operator has increased receipt point capacity at the Kramer Junction receipt point. Although we have identified additional mitigation measures, in our opinion, resuming operation of Aliso Canyon, consistent with DOGGR and federal regulations, and removing the systemwide withdrawal rate requirement are the most effective ways to mitigate energy reliability risks, reduce price volatility, and begin preparation for next summer and winter. The other identified mitigation measures are ancillary options, which should not be viewed as capable of sufficiently mitigating reliability risks, controlling price volatility, or promoting system flexibility and resiliency.

As discussed in our attached Winter Technical Assessment, we have identified additional potential options to mitigate energy reliability risks. The first would increase supply delivered into the SoCalGas system by having the SoCalGas System Operator purchase incremental supply delivered to the Otay Mesa receipt point. The other three are demand-side programs designed to help manage customer demand this winter: (1) targeted marketing, education, and engagement campaigns; (2) demand response programs; and (3) custom energy efficiency projects and behavior programs. None of the above mitigation measures would be adequate or cost effective in replacing the reliability, resiliency, and flexibility provided by Aliso Canyon or otherwise substantially reducing reliability risk this winter.

First, SoCalGas System Operator purchases of incremental supply at Otay Mesa are dependent on there being available supply to deliver. SoCalGas' understanding is that little to no firm capacity exists this winter season on the pipeline path to transport supply from the El Paso Pipeline system to the Otay Mesa receipt point. If firm capacity on this pipeline path cannot be obtained, then this mitigation measure is only available with the purchase of firm transportation capacity on the Transportadora de Gas Natural Pipeline for liquefied natural gas from the Energía Costa Azul terminal. This purchase would require explicit CPUC authority because of the corporate relationship between SoCalGas, Transportadora de Gas Natural, and Energía Costa Azul.

Second, while we support demand-side programs as part of our normal energy efficiency activities, these demand-side programs have not proven adequate in replacing the level of reliability, resiliency, and flexibility provided by Aliso Canyon.

The State Must Make a Decision on Energy Reliability

The State's previous policy decisions create reliability and price volatility issues this winter that cannot be fully mitigated, even with the full use of Aliso Canyon. As operators, we plan two seasons ahead, which is why we have been regularly communicating our concerns to you and your agencies.

We understand and appreciate that you and your agencies share our reliability concerns and are actively engaged in addressing the energy needs of California and its citizens. We continue to stand ready to implement and support mitigation measures in the near-term, and we hope to work with you on a path forward that will create long-term solutions that provide Californians the safe, reliable, and cost-effective energy they deserve.

In the near term, however, the State must decide, as a matter of policy, whether it is more prudent to risk customer curtailments and price volatility, or use Aliso Canyon, a facility that state agencies deemed safe three-months ago. In our opinion, we believe a decision to authorize SoCalGas to use Aliso Canyon the same as the other fields – consistent with DOGGR and federal regulations – and remove systemwide storage withdrawal requirements is the prudent decision for our State's energy consumers.

We thank you for your continued engagement on these important reliability issues. We hope that the information we have provided helps inform your decision-making as you consider how best to address the energy needs of California.

Sincerely,

Bret Lane
President and Chief Operating Officer

Enclosures

cc: Saul Gomez, California Governor's Office
Drew Bohan, California Energy Commission
Edward Randolph, California Public Utilities Commission
Ken Harris, Division of Oil, Gas & Geothermal Resources
Stephen Berberich, California Independent System Operator
David Wright, Los Angeles Department of Water and Power