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June 14, 2016

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute a settlement agreement and all other necessary documents to settle the City of Long Beach's (City) challenge to the Southern California Gas Company's (SoCalGas) motion before the Public Utilities Commission (PUC) for an interim order to establish daily balancing requirements.

DISCUSSION:

On October 23, 2015, SoCalGas discovered a leak at one of its injection and withdrawal wells at its Aliso Canyon natural gas storage facility located in the northern part of the San Fernando Valley. The leak was eventually sealed on February 11, 2016, but not before massive amounts of methane and other greenhouse gasses were released into the atmosphere. Soon after the leak was detected, the California Division of Oil, Gas and Geothermal Resources (DOGGR) and the PUC ordered SoCalGas to greatly reduce the amount of gas held at the facility. SoCalGas estimates that it may take several months or possibly years before the Aliso Canyon storage facility can resume normal operations.

Aliso Canyon plays a major roll in maintaining system reliability, especially maintaining a steady flow of natural gas to electric generation facilities. Electric generation is not a steady load, and on summer days tends to peak during the late afternoon and early evening hours. As electricity use peaks, generators need an increased supply of natural gas to meet demand. SoCalGas uses storage withdrawals to meet the demand of electric generators during peak hours while maintaining its system reliability. Aliso Canyon is the largest source of storage supply available to the Los Angeles basin and, therefore, plays a critical role in maintaining the electric grid reliability.

To help ensure an adequate supply of natural gas to maintain system reliability, on March 1, 2016, SoCalGas and San Diego Gas and Electric (SDG&E)

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filed a motion before the PUC to establish an interim order establishing temporary daily balancing requirements. Under this motion, SoCalGas and SDG&E would require all customers that transport natural gas through their systems to deliver no more or less than 5 percent of their natural gas use on a daily basis. Customers that deliver gas outside of this tolerance would be subject to financial penalties. Because natural gas use is volatile and depends on several uncontrollable factors such as weather and electrical use, most entities that deliver gas through the SoCalGas and SDG&E systems would be unable to consistently remain within the requested tolerances. The Long Beach Gas and Oil Department estimates that its customers would incur $1.7 million in an additional costs (through utility bills) should the PUC approve the motion.

Numerous affected parties contested the motion citing that they would be bearing the costs of the Aliso Canyon disaster; costs that should solely be borne by SoCalGas. Parties contesting the motion for daily balancing include California Independent System Operators (CAISO), Southern California Edison Company (SCE), Office of Ratepayer Advocates (ORA), California Manufacturers and Technology Association (CMTA), Southwest Gas Corporation (SWG), Shell Energy North America (US), L.P., Independent Energy Producers Association (IEPA), City of Vernon, and City of Long Beach. At the April 20, 2016 prehearing conference, SoCalGas, SDG&E, and the affected parties notified the PUC that a tentative settlement had been reached.

Currently, when SoCalGas and SDG&E experience reliability issues from an excess or insufficient supply of natural gas to their systems, these companies will call an Operational Flow Order (OFO). In times when excess gas is being delivered to SoCalGas or SDG&E, customers delivering over 10 percent of their actual usage will be subject to penalties on any gas exceeding that tolerance. In times of insufficient gas supply, a low OFO will be called with tolerances ranging from 5 percent to 25 percent of usage based on the severity of the situation.

Under the terms of the settlement, SoCalGas and SDG&E will not impose daily balancing requirements, in favor of using current OFO procedures with modifications. The default tolerance for high OFOs will be reduced from 10 percent to 5 percent, and the calculations used to determine if calling an OFO is warranted will be based on actual system constraints. In addition, the high OFO buy-back rate will double and any low OFO penalty amounts will be credited to fixed cost accounts (core and non-core). The settling parties requested that the PUC establish a subsequent phase of the proceeding to consider reliability measures that may be needed beyond November 30, 2016. The City, represented by its outside counsel Davis Wright and Tremaine, LLP, feel this settlement is reasonable, consistent with law, and in the public interest.

The Economic Development and Finance committee approved the proposed settlement on May 17, 2016.

SUGGESTED ACTION:

Approve recommendation.

Very truly yours,

CHARLES PARKIN, City Attorney

By

Richard F. Anthony,
Deputy City Attorney

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