

Date of Hearing: April 25, 2018

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Chris Holden, Chair

AB 1879 (Santiago) – As Introduced January 17, 2018

SUBJECT: Gas corporation: service connections

SUMMARY: Prohibits the California Public Utilities Commission (CPUC) from restricting new service connections for natural gas within a gas corporation's service territory.

EXISTING LAW:

- 1) Requires every public utility to furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities, as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public and requires all rules made by a public utility affecting or pertaining to its charges or service to be just and reasonable. (Public Utilities Code § 451)
- 2) Authorizes the CPUC to supervise and regulate every public utility in the state and do all things necessary and convenient in the exercise of its power and jurisdiction. (Public Utilities Code § 701)
- 3) Establishes a moratorium on injecting natural gas into the Aliso Canyon gas storage facility and establishes requirements for resuming natural gas injections at the facility. (Public Resources Code § 3217, Public Utilities Code §§ 714,715)

FISCAL EFFECT: This bill is not keyed fiscal.

BACKGROUND:

In October 2015, a significant uncontrolled natural gas leak from a gas storage well was discovered within the Southern California Gas Company's (SoCalGas) Aliso Canyon natural gas storage facility. The Aliso Canyon natural gas storage facility is the largest natural gas storage facility in the western United States. A moratorium was imposed on use of the facility. It resumed limited operation in July 2017.

The CPUC took a series of steps to address reliability while the viability of the facility was assessed along with energy conservation efforts by residents. Most significantly the CPUC and the California Energy Commission (CEC) maintained a close watch on the gas supplies and continue to regularly evaluate the reliability challenges of delivering energy to Southern California.

For the 2017-2018 winter period the agencies discovered significant new reliability challenges on the SoCalGas system due to a series of major unplanned outages and maintenance issues on three pipelines delivering gas to the region which collectively represent 42 percent of the natural gas import capacity. The agencies reported that the Los Angeles region faced greater uncertainty than the winter of 2016-2017 with respect to the ability of SoCalGas to meet customer demand through the winter.

The *2017-18 Winter Technical Report* found that the unplanned outages of three critical natural gas pipelines raised significant concerns SoCalGas would be unable to meet natural gas demand during peak winter conditions. Three pipelines that provide almost half of all import capacity into the Los Angeles region were out of service and two of those pipelines were unlikely to return to service before spring 2018, further constraining gas service to the region during peak winter months.

The CPUC reported that although several mitigation measures were implemented, including authorizing the limited use of gas from the Aliso Canyon storage field when necessary, expanding programs to deploy more smart thermostats that reduce demand, and other measures, it remained unclear that the actions to date would be sufficient to avoid gas service disruption to noncore customers in Southern California in the event of a colder than normal series of days this winter.

A moratorium on new commercial and industrial natural gas service connections in both the incorporated and unincorporated areas of Los Angeles County served by Aliso Canyon was identified in the Winter Technical Report as a measure to avoid increased gas demand. The moratorium was thought to avoid increased demand for natural gas as a result of new service connections would avoid further curtailments to existing customers.

In December, the CPUC followed mandated public notice requirements and placed a resolution on the Commission's January 11, 2018 business meeting agenda. If adopted the resolution would have ordered SoCalGas to suspend new service connections for commercial and industrial customers through March 31st. The Commission held action on the resolution but carried it over to successive meetings in the event that conditions in the LA region dictated adoption.

The winter months proved to be warmer than expected salvaging gas supply. However, colder weather starting in mid-February resulted in high gas demand and in a severe drop in gas inventory of non-Aliso storage facilities. In response the CPUC authorized SoCalGas to utilize Aliso to maintain or restore storage levels.

The CPUC did not act on the original proposed gas moratorium resolution. Its provisions would have suspended connections until March. It is now out of date and off calendar.

COMMENTS:

- 1) Author's Statement. The author reports that as many as 700 new businesses in Los Angeles, several of which are located in his district, would have been forced to wait until spring to operate, leaving thousands of people out of work for nearly three months had the moratorium on gas connections been adopted by the CPUC. He opines that it would have been an economic blow to the region for relatively little gain. He heard loud and clear from his constituents and people across California that the proposed moratorium by the CPUC would have had real life-changing ramifications. There are small businesses that would have not been able to proceed with development and homes that would have had construction halted – in the middle of an established housing crisis in the state. His intent with AB 1879 is to send a clear message that we need to pause for a moment on imposing future moratoriums on new natural gas service connections, and be deliberate and thoughtful about how we proceed with

California's energy resources and infrastructure.

- 2) Business Backlash. The potential delay in gas connections for new commercial and industrial customers sent a winter chill through the business community in the LA Region. Citing an analysis by the Los Angeles County Economic Development Corporation,¹ the author reported that "California communities rely on businesses that are currently being built, modernized, or expanded. If the CPUC's moratorium had been implemented, it would have had the following estimated economic and job impacts in Los Angeles County over the course of the moratorium (January 11, 2018 through March 31, 2018):

- 5,160 fewer total jobs would be created;
- \$879.5 million lost in future economic output;
- \$323.9 million lost in future labor earnings; and
- \$119.7 million lost in future federal, state and local tax revenues, of which \$13.3 million and \$5.8 million would be lost in tax revenues to Los Angeles County and local cities, respectively.

The proposed moratorium would have been temporary if adopted. The resolution proposed that it end March 31, 2018.

- 3) Safety & Reliability. The two most critical responsibilities of the CPUC are to ensure a safe and reliable gas system to serve customers. This bill restricts the authority of the CPUC to suspend or restrict gas service connections, for any reason, including safety and reliability. The potential disruption of new service connections this past winter is tantamount to the lights going out for an extended period on the electric side and is of significant concern. However, if the CPUC is made aware of the potential for shortages in supply, or that the safety could be affected by new gas service connections, it is critical that they have the authority to take the necessary actions to ensure safety and reliability of the system. Consequently, *the committee may wish to consider amending this bill to strike the current language, but elevate the discussion and notice required before the CPUC takes action to suspend or terminate gas service connections as follows:*

a) The Commission shall notify the Assembly Utilities and Energy Committee, the Senate Energy, Utilities, and Communications Committee and affected gas corporations before suspending new natural gas service connections for the purpose of ensuring the safety or reliability of natural gas service.

b) When a gas corporation receives notification from the commission that an action is pending that may suspend new gas service connections, the gas corporation shall immediately notify any known potential or current customers that may experience a service impact as a result of the proposed suspension.

c) The Commission may take action to implement a moratorium on new natural gas service connections after it has exhausted all other feasible alternatives to ensure natural

¹ "Natural Gas Moratorium: Los Angeles County." Los Angeles County Economic Development Corporation Report, January 2018. https://laedc.org/wp-content/uploads/2018/01/Gas-Moratorium-Review_20180109.pdf

gas reliability but no sooner than 90 days after the notice required in subdivision (a) unless exigent circumstances require earlier action to ensure safety or reliability.

d) The Commission shall include in the notification to the Legislature required in subdivision (a) factual findings supporting the need to propose a moratorium on new natural gas service connections. The report shall include, but is not limited to, the number of pending gas service connection applications with the gas corporation, the estimated gas load deferred under the proposed moratorium, the system constraints that led to the proposed moratorium, and a process for a customer to request an exemption from the moratorium.

- 4) Prior Legislation. SB 380 (Pavley) continued the moratorium on injection of natural gas at the Aliso Canyon gas storage facility until specified criteria, including testing, are met. Required the feasibility of the storage facility to be addressed and required the CPUC to determine the amount of gas necessary at the facility for safety, regional reliability and to ensure just and reasonable rates. (Chapter 14, Statutes of 2016)

REGISTERED SUPPORT / OPPOSITION:

Support

American Chemistry Council
 California Building Industry Association
 California Business Roundtable
 California Chamber of Commerce
 California Independent Petroleum Association (CIPA)
 California Manufacturers and Technology Association
 California Natural Gas Producers Association
 California Restaurant Association
 City of Vernon
 Clean Energy
 Energy Users Forum
 San Diego Gas and Electric
 San Gabriel Valley Economic Partnership
 Southern California Gas Company
 The Association of California Cities, Orange County
 Valley Industry and Commerce Association
 Western States Petroleum Association

Opposition

Sierra Club California

Analysis Prepared by: Kellie Smith / U. & E. /