U.S. Department
of Transportation

**Pipeline and
Hazardous Materials
Safety Administration**

840 Bear Tavern Road, Suite 300
West Trenton, NJ 08628
609.771.7800

WARNING LETTER

OVERNIGHT EXPRESS DELIVERY

May 28, 2020

Ms. Debra Reed
President & CEO
Southern California Gas Company
555 West Fifth Street
Los Angeles, CA 90013

CPF 1-2020-0004W

Dear Ms. Reed:

From October 29 – November 1, 2019, inspectors from the California Geologic Energy Management Division (CalGEM), acting as an Agent for the Pipeline and Hazardous Materials Safety Administration (PHMSA), Office of Pipeline Safety (OPS), pursuant to Chapter 601 of 49 United States Code (U.S.C.) inspected Southern California Gas Company (SCG)'s underground natural gas storage program and records for the Aliso Canyon (AC), Honor Rancho (HR) and Playa Del Rey (PDR) storage fields in Los Angeles County, California.

As a result of the inspection, it is alleged that you have committed probable violations of the Pipeline Safety Regulations, Title 49, Code of Federal Regulations (CFR). The items inspected and the probable violations are:

1. **§ 192.12 Underground natural gas storage facilities.**

   (a) ....

   (d) Each underground natural gas storage facility that uses a depleted hydrocarbon reservoir or an aquifer reservoir for gas storage, including those constructed not later than July 18, 2017 must meet the operations, maintenance, integrity demonstration and verification, monitoring, threat and hazard identification, assessment, remediation, site security, emergency response and preparedness, and recordkeeping requirements and recommendations of API RP 1171, sections 8, 9, 10, and 11 (incorporated by reference, see §192.7) by

January 18, 2018.[1]

SCG failed to meet the applicable requirements and recommendations of API RP 1171, Section 8. Specifically, SCG's records did not show that plugged and abandoned third party wells were included in its assessments in accordance with API RP 1171, Section 8.3.2 Data Sources (Section 8.3.2).

Section 8.3.2 states in part:

> The operator shall use available information such as performance data collected through the field history, operations and maintenance (O&M) activities, geotechnical data such as well logs, engineering data, and completion reports to determine susceptibility to threat and hazard-related events and to assess threat and hazard interaction.

At the time of the inspection, SCG's records did not address plugged and abandoned third-party wells. Therefore, SCG failed to meet the requirements of Section 8.3.2.

2. § 192.12 Underground natural gas storage facilities.

(a) ...

(d) Each underground natural gas storage facility that uses a depleted hydrocarbon reservoir or an aquifer reservoir for gas storage, including those constructed not later than July 18, 2017 must meet the operations, maintenance, integrity demonstration and verification, monitoring, threat and hazard identification, assessment, remediation, site security, emergency response and preparedness, and recordkeeping requirements and recommendations of API RP 1171, sections 8, 9, 10, and 11 (incorporated by reference, see §192.7) by January 18, 2018.

SCG failed to meet the applicable requirements and recommendations of API RP 1171, Section 9. Specifically, SCG's records did not demonstrate that site specific characteristics of the reservoir and wells were all accounted for as required by API RP 1171, Section 9.2.1, Integrity Maintenance (Section 9.2.1).

Section 9.2.1 states in part:

> The operator shall maintain functional integrity of storage wells and reservoirs. Storage wells and reservoirs can have different characteristics resulting in unique requirements in approaching integrity demonstration, verification, and monitoring.

[1] The final rule, Pipeline Safety: Safety of Underground Natural Gas Storage Facilities, 85 FR 8104 (February 12, 2020), revised § 192.12. The requirement cited in this Warning Letter is still present but is now codified in § 192.12(b)(2).

SCG's records insufficiently addressed site specific characteristics amongst the reservoir compartments and fault blocks, along with the characteristics of wells, including construction, integrity testing and workover histories. Those unique characteristics were insufficiently incorporated into risk calculations, rankings and risk mitigation protocols contained within the operator's risk management plans (RMPs) submitted to CalGEM on April 1, 2019. Therefore, SCG failed to meet the requirements of Section 9.2.1.

3. § 192.12 Underground natural gas storage facilities.

(a) ....

(d) Each underground natural gas storage facility that uses a depleted hydrocarbon reservoir or an aquifer reservoir for gas storage, including those constructed not later than July 18, 2017 must meet the operations, maintenance, integrity demonstration and verification, monitoring, threat and hazard identification, assessment, remediation, site security, emergency response and preparedness, and recordkeeping requirements and recommendations of API RP 1171, sections 8, 9, 10, and 11 (incorporated by reference, see § 192.7) by January 18, 2018.

SCG failed to meet the applicable requirements and recommendations of API RP 1171, Section 9. Specifically, SCG failed to request third-party well integrity evaluation data, as required by API RP 1171, Section 9.3.1 Well Integrity Evaluation (Section 9.3.1).

Section 9.3.1 states in part:

> The operator shall evaluate the mechanical integrity of each active well, including each third-party well, that penetrates the storage reservoir and buffer zone or areas influenced by storage operations.
>
> Well integrity evaluation methods typically used by operators include but are not limited to review of design, completion, and well work records, wellhead and downhole inspection, well pressure monitoring and testing, and gas sampling.
>
> The operator shall request well integrity evaluation data from third-party well owner/operators following the frequency established using conclusions from the risk assessment.
>
> Active well mechanical integrity evaluations shall include initial and subsequent evaluations as determined using the risk assessment and the information derived from the initial evaluation:

During the inspection, SCG was asked to provide records showing that they had requested third-party well integrity information. SCG could not provide any records documenting that they requested this information. Therefore, SCG failed to meet the requirements of Section 9.3.1.

4. § 192.12 Underground natural gas storage facilities.

(a) ...

> **(d) Each underground natural gas storage facility that uses a depleted hydrocarbon reservoir or an aquifer reservoir for gas storage, including those constructed not later than July 18, 2017 must meet the operations, maintenance, integrity demonstration and verification, monitoring, threat and hazard identification, assessment, remediation, site security, emergency response and preparedness, and recordkeeping requirements and recommendations of API RP 1171, sections 8, 9, 10, and 11 (incorporated by reference, see §192.7) by January 18, 2018.**

SCG failed to meet the applicable requirements and recommendations of API RP 1171, Section 9. Specifically, SCG failed to demonstrate that it evaluated each occurrence of annular gas that exceeded operator defined threshold levels in accordance with API RP 1171, Section 9.3.2, Well Integrity Monitoring (Section 9.3.2).

Section 9.3.2 states in part:

> The operator shall evaluate each annular gas occurrence that exceeds operator- or regulatory-defined threshold levels determined from well integrity evaluation and from risk assessment.

During the inspection, SCG was unable to provide documentation of the evaluation of each occurrence of annular gas that exceeded operator-defined threshold levels. Therefore, SCG failed to meet the requirements of Section 9.3.2.

5. § 192.12 Underground natural gas storage facilities.

> **(a) …**
>
> **(d) Each underground natural gas storage facility that uses a depleted hydrocarbon reservoir or an aquifer reservoir for gas storage, including those constructed not later than July 18, 2017 must meet the operations, maintenance, integrity demonstration and verification, monitoring, threat and hazard identification, assessment, remediation, site security, emergency response and preparedness, and recordkeeping requirements and recommendations of API RP 1171, sections 8, 9, 10, and 11 (incorporated by reference, see §192.7) by January 18, 2018.**

SCG failed to meet the applicable requirements and recommendations of API RP 1171, Section 9. Specifically, SCG failed to document the notable corrosion on the WEZU C2A wellhead during its monthly inspections conducted in accordance with API RP 1171, Section 9.3.2.

Section 9.3.2 states in part, "The operator shall visually inspect each wellhead assembly at least annually for leaks."

During the field inspection, CalGEM observed and photographed significant corrosion on a valve flange on well WEZU C2A. CalGEM also established that SCG performs monthly visual wellhead

inspections. However, SCG's monthly inspection records for well WEZU C2A did not note the presence of corrosion, nor did they provide comments on evaluating the origin of the corrosion or the potential for a leaking valve flange.

Under 49 U.S.C. § 60122 and 49 CFR § 190.223, you are subject to a civil penalty not to exceed $218,647 per violation per day the violation persists, up to a maximum of $2,186,465 for a related series of violations. For violation occurring on or after November 27, 2018 and before July 31, 2019, the maximum penalty may not exceed $213,268 per violation per day, with a maximum penalty not to exceed $2,132,679. For violation occurring on or after November 2, 2015 and before November 27, 2018, the maximum penalty may not exceed $209,002 per violation per day, with a maximum penalty not to exceed $2,090,022. For violations occurring prior to November 2, 2015, the maximum penalty may not exceed $200,000 per violation per day, with a maximum penalty not to exceed $2,000,000 for a related series of violations.

Be advised that all material you submit in response to this enforcement action is subject to being made publicly available. If you believe that any portion of your responsive material qualifies for confidential treatment under 5 U.S.C. 552(b), along with the complete original document you must provide a second copy of the document with the portions you believe qualify for confidential treatment redacted and an explanation of why you believe the redacted information qualifies for confidential treatment under 5 U.S.C. 552(b). We have reviewed the circumstances and supporting documents involved in this case, and have decided not to conduct additional enforcement action or penalty assessment proceedings at this time. We advise you to correct the item(s) identified in this letter. Failure to do so will result in SCG being subject to additional enforcement action.

No reply to this letter is required. If you choose to reply, please submit all correspondence in this matter to Robert Burrough, Director, PHMSA Eastern Region, 840 Bear Tavern Road, Suite 300, West Trenton, NJ 08628. Please refer to **CPF 1-2020-0004W** on each document you submit, and whenever possible provide a signed PDF copy in electronic format. Smaller files may be emailed to robert.burrough@dot.gov. Larger files should be sent on USB flash drive accompanied by the original paper copy to the Eastern Region Office.

Sincerely,

Robert Burrough
Director, Eastern Region
Pipeline and Hazardous Materials Safety Administration

CC: Troy Bauer, Pipeline Safety & Compliance Manager, Southern California Gas Company (via email)