SoCal Gas to start extracting natural gas from storage facilities

Sempra CEO set to retire in 2012

Eric Wolff, Escondido North County Times, 3-24-11

Southern California Gas Co. will set up equipment to extract "native" natural gas and oil from beneath and around its storage areas this year, with production to begin in 2012, executives from the utility said Wednesday.

Gas utilities typically don't produce their own natural gas, instead buying it on the commodities market from large suppliers in Gulf Coast or Rocky Mountain states. But SoCal Gas owns large natural underground formations in Southern California where it stores natural gas. The utility injects gas from transmission pipes to create a natural gas reserve in areas that were once gas and oil fields.

Speaking at Sempra Energy's annual analyst conference, SoCal Gas CEO Mike Allman said natural gas and oil production from reservoirs near and under the storage areas would be a source of new income in coming years.

"We have $100 million of investment planned to explore and further develop company-owned storage assets to produce native gas and oil," Allman said at a Sempra Energy conference for analysts.

SoCal Gas keeps four underground storage facilities in Southern California, all of them former oil and natural gas wells considered uneconomical for further development when they were abandoned, said Rodger Schwecke, director of storage.

SoCal Gas sometimes taps the reserves to maintain pressure in the system, as in January when low temperature in the Midwest reduced incoming supplies. Extracting stored natural gas sometimes also pulls oil up from the well, which the utility sells on the open market. The new program, called the Native Gas Program, will use the same extraction technology to tap reservoirs near the storage site to pull up natural gas and oil that was already there, and not injected from transmission pipelines.

But extraction is unusual for utilities like SoCal Gas, which gets a monopoly to provide gas to much of Southern California in exchange for submitting to stiff state regulation. The utility had to agree to a cost and revenue structure with ratepayer advocates concerned about ratepayer risk, and with Exxon Mobil and petroleum associations worried about competition from a ratepayer-supported monopoly.

Under a settlement agreement approved by the California Public Utilities Commission in 2006, SoCal Gas ratepayers and Sempra shareholders will evenly split costs of extraction and revenues from the natural gas. Ratepayer costs are capped at $3 million, with the ratepayers' portion of revenues from exploration at the utility's first extraction site covering future investment at additional sites.

Allman said in his presentation that the company will invest in extraction at all four of its storage sites, in La Goleta, Aliso Canyon, Honor Rancho and Montebello. In the settlement agreement, SoCal Gas engineers estimated 0.5 billion cubic feet of natural gas at La Goleta and between 3 billion and 12 billion cubic feet at Aliso Canyon. The agreement gave no estimate for the other sites.

Other notes from the analysts' meeting:

-- Sempra Energy CEO Don Felsinger will retire in 2012, and President and COO Neal Schmale will retire this year. Both men will retire at age 65, when top Sempra executives usually retire, according to spokesman Doug Kline. Felsinger said a succession announcement could be expected later this year.

-- SoCal Gas is looking at expanding its business of refueling natural gas vehicles.

-- San Diego Gas & Electric Co. is in the middle of a $7 billion, five-year capital investment program, the largest in its history, according to CEO Jessie Knight.

-- SDG&E is asking the PUC to find a way to pay for litigation stemming from future wildfires.