

AMENDED IN SENATE MARCH 28, 2016

SENATE BILL

No. 1441

Introduced by Senators Leno and Pavley

February 19, 2016

An act to add Section ~~38572~~ 39731.5 to the Health and Safety Code, and to ~~add Section 747.2 to~~ *amend Section 977 of* the Public Utilities Code, relating to natural gas.

LEGISLATIVE COUNSEL'S DIGEST

SB 1441, as amended, Leno. Natural gas: ~~vented and fugitive emissions.~~ *methane emissions.*

(1) The California Global Warming Solutions Act of 2006 designates the State Air Resources Board as the state agency charged with monitoring and regulating sources of emissions of greenhouse gases. ~~The act requires the board to adopt greenhouse gas emission limits and emission reduction measures by regulation, and authorizes the state board to include the use of market-based compliance mechanisms in its implementing regulations to achieve those emissions goals.~~ *The state board is required to adopt a statewide greenhouse gas emissions limit equivalent to the statewide greenhouse gas emissions level in 1990 to be achieved by 2020 and to adopt rules and regulations in an open public process to achieve the maximum, technologically feasible, and cost-effective greenhouse gas emissions reductions.*

~~This bill would require the state board, in regulations implementing a market-based compliance mechanism, to include vented emissions and fugitive emissions of natural gas as counting against the compliance obligation of certain covered natural gas-related entities under the mechanism.~~

The state board is also required to complete a comprehensive strategy to reduce emissions of short-lived climate pollutants, as defined, in the state and to take specified actions and conduct specified analyses with respect to methane emissions.

This bill would require the state board, in consultation with the Public Utilities Commission and other relevant state agencies, to adopt by regulation no later than January 1, 2020, methane emissions reduction measures for the emissions associated with the extraction, production, storage, processing, and transportation of natural gas used in the state, including imports, that will achieve a reduction in methane emissions of at least 40% below 2012 methane emissions levels by 2025, as specified. The bill also would require the state board, in consultation with the commission and other relevant state agencies, to consider, among other things, developing new incentives or investment programs to facilitate emissions reductions in basins and fields from which the state receives natural gas and imposing new requirements on the state's regulated natural gas corporations related to natural gas procurement and tracking of interstate deliveries.

(2) Under existing law, the ~~Public Utilities Commission~~ *commission* has regulatory authority over public utilities, including gas corporations, as defined. Existing law authorizes the commission to fix the rates and charges for every public utility and requires that those rates and charges be just and reasonable.

This bill would, in establishing rates for gas corporations, prohibit the commission from ~~considering systemic natural gas losses in the form of vented or fugitive emissions occurring during the injection, storage, transmission, or distribution~~ *allowing gas corporations to seek or receive recovery from ratepayers for the value of natural gas lost to the atmosphere during the extraction, production, storage, processing, transportation, and delivery of the natural gas.*

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 *SECTION 1. The Legislature finds and declares all of the*
- 2 *following:*
- 3 *(a) California is the nation's second largest user of natural gas,*
- 4 *comprising nearly 10 percent of the entire national consumption.*
- 5 *This natural gas comes from a variety of basins, with over 90*

1 *percent of the natural gas used in the state being imported from*
2 *locations across the southwestern United States, the Rocky*
3 *Mountains, and western Canada before being transported through*
4 *more than 100,000 miles of pipe to over 11 million customers in*
5 *state.*

6 *(b) Methane, the principle component of natural gas, is a*
7 *greenhouse gas known by the Intergovernmental Panel on Climate*
8 *Change to have a global warming potential 28 times that of carbon*
9 *dioxide over a 100-year time horizon and 84 times that of carbon*
10 *dioxide over a 20-year time horizon.*

11 *(c) Methane leakage during the drilling, production, and*
12 *transportation of natural gas used in the state contributes to the*
13 *overall climate footprint of the energy system of the state, and*
14 *although additional scientific research and analysis is presently*
15 *being conducted to evaluate how much methane is leaked, there*
16 *is enough information and it is imperative to continue to act to*
17 *reduce that leakage.*

18 *(d) The Legislature has established a policy goal to significantly*
19 *reduce emissions of greenhouse gases in California, including*
20 *methane leakage, but there is insufficient accountability over*
21 *methane that is released into the atmosphere from operations*
22 *within the state or from operations connected to gas imported into*
23 *the state.*

24 *(e) Requiring accountability for methane leakage associated*
25 *with operations necessary to bring natural gas to state residents,*
26 *in addition to adjusting and creating incentives to reduce leakage,*
27 *will enable a more thorough approach to meeting the state's*
28 *climate change goals while providing for a full accounting of the*
29 *state's climate footprint.*

30 *(f) The Legislature also has established that the safety of the*
31 *natural gas pipeline infrastructure in the state is a priority for the*
32 *Public Utilities Commission and gas corporations, and nothing*
33 *in this act shall compromise or deprioritize safety as a top*
34 *consideration.*

35 *(g) While providing just and reasonable rate revenues for*
36 *California gas corporations to find, categorize, and repair leaks*
37 *promptly when discovered, including employing an adequate*
38 *workforce, is in the public interest and promotes the interests of*
39 *customers and the public, providing revenue to gas corporations*

1 *to compensate them for the value of gas they lose to the atmosphere*
2 *is not in the public interest.*

3 *(h) While action in other states and by the federal government*
4 *is necessary to fully address methane pollution from operations*
5 *associated with gas imported into the state, integrating the full*
6 *climate footprint of California natural gas into statewide planning*
7 *efforts while also developing initiatives to actually reduce that*
8 *footprint benefits the environment and reduces the leakage*
9 *associated with the state's climate programs.*

10 *SEC. 2. Section 39731.5 is added to the Health and Safety*
11 *Code, to read:*

12 *39731.5. (a) Notwithstanding Sections 38550 and 38551, no*
13 *later than January 1, 2020, the state board, in consultation with*
14 *the Public Utilities Commission and other relevant state agencies,*
15 *shall adopt by regulation methane emissions reduction measures*
16 *for the emissions associated with the extraction, production,*
17 *storage, processing, and transportation of natural gas used in the*
18 *state, including imports, that will achieve a reduction in methane*
19 *emissions of at least 40 percent below 2012 methane emissions*
20 *levels by 2025.*

21 *(b) The regulation adopted pursuant to subdivision (a) shall*
22 *include both of the following:*

23 *(1) Information gathered or acquired pursuant to subdivision*
24 *(b) of Section 39731 to determine the 2012 level of methane*
25 *emissions.*

26 *(2) Interim targets to reach the methane emissions level*
27 *described in subdivision (a).*

28 *(c) The state board, in consultation with the Public Utilities*
29 *Commission and other relevant state agencies, shall consider all*
30 *of the following:*

31 *(1) Developing new incentives or investment programs to*
32 *facilitate emissions reductions in basins and fields from which the*
33 *state receives natural gas.*

34 *(2) Imposing new requirements on the state's regulated natural*
35 *gas corporations related to natural gas procurement and tracking*
36 *of interstate deliveries.*

37 *(3) Modifying the state's market-based emissions reduction*
38 *measures, including a market-based compliance mechanism*
39 *adopted pursuant to Section 38570, to account for and include*

1 methane emissions within the compliance obligations of natural
2 gas utilities or fuel importers.

3 (4) Participating in or forming interstate and federal working
4 groups, compacts, or agreements.

5 (5) Designing regulations in a manner that seeks to minimize
6 costs and maximize the total benefits.

7 (d) This section shall be implemented to the extent feasible and
8 consistent with law.

9 SEC. 3. Section 977 of the Public Utilities Code is amended
10 to read:

11 977. In order to achieve transparency and accountability for
12 rate revenues and best value for ratepayers, and consistent with
13 the commission's existing ratemaking procedures and authority
14 to establish just and reasonable rates, the commission shall consider
15 all of the following:

16 (a) Providing an adequate workforce to achieve the objectives
17 of reducing hazards and emissions from leaks, including leak
18 avoidance, reduction, and repair.

19 (b) (1) Providing revenues for all activities identified and
20 required pursuant to Section 975, including any adjustment of
21 allowance for lost and unaccounted for gas related to actual leakage
22 volumes.

23 (2) In establishing rates for gas corporations, in an individual
24 rulemaking proceeding or in general rate cases, the commission
25 shall not allow gas corporations to seek or receive recovery from
26 ratepayers for the value of natural gas lost to the atmosphere
27 during the extraction, production, storage, processing,
28 transportation, and delivery of the natural gas.

29 (c) Providing guidance for treatment of expenditures as being
30 either an item of expense or a capital investment.

31 (d) The impact on affordability of gas service for vulnerable
32 customers as a result of the incremental costs of compliance with
33 the adopted rules and procedures.

34 ~~SECTION 1. In enacting this act, it is the intent of the~~
35 ~~Legislature to create incentives to reduce or eliminate vented~~
36 ~~emissions and fugitive emissions of natural gas.~~

37 ~~SEC. 2. Section 38572 is added to the Health and Safety Code,~~
38 ~~to read:~~

39 ~~38572. (a) For purposes of this section, the following~~
40 ~~definitions apply:~~

1 (1) ~~“Fugitive emissions” has the same meaning as set forth in~~
2 ~~Section 39023.3.~~

3 (2) ~~“Vented emissions” means intentional or designed releases~~
4 ~~of natural gas or hydrocarbon gas, not including stationary~~
5 ~~combustion flue gas, including process designed flow to the~~
6 ~~atmosphere through seals or vent pipes, equipment blowdown for~~
7 ~~maintenance, and direct venting of gas used to power equipment,~~
8 ~~such as pneumatic devices.~~

9 (b) ~~In regulations implementing a market-based compliance~~
10 ~~mechanism pursuant to this part, the state board shall include~~
11 ~~vented or fugitive emissions of natural gas as counting against the~~
12 ~~compliance obligation of covered entities engaged in the extraction,~~
13 ~~distribution, or transmission of natural gas under the mechanism.~~

14 ~~SEC. 3. Section 747.2 is added to the Public Utilities Code, to~~
15 ~~read:~~

16 ~~747.2. (a) For purposes of this section, the following~~
17 ~~definitions apply:~~

18 (1) ~~“Fugitive emissions” has the same meaning as set forth in~~
19 ~~Section 39023.3 of the Health and Safety Code.~~

20 (2) ~~“Vented emissions” means intentional or designed releases~~
21 ~~of natural gas or hydrocarbon gas, not including stationary~~
22 ~~combustion flue gas, including process designed flow to the~~
23 ~~atmosphere through seals or vent pipes, equipment blowdown for~~
24 ~~maintenance, and direct venting of gas used to power equipment,~~
25 ~~such as pneumatic devices.~~

26 (b) ~~In establishing rates for gas corporations, the commission~~
27 ~~shall not consider the systemic natural gas losses in the form of~~
28 ~~fugitive or vented emissions occurring during the injection, storage,~~
29 ~~transmission, or distribution of the natural gas.~~

30 (c) (1) ~~This section does not prohibit gas corporations from~~
31 ~~using ratepayer funds to repair systemic natural gas leaks or to~~
32 ~~improve industry practices to reduce or eliminate vented or fugitive~~
33 ~~emissions.~~

34 (2) ~~This section does not prohibit gas corporations from~~
35 ~~recovering their costs incurred in compliance with regulations~~
36 ~~adopted pursuant to Section 38572 of the Health and Safety Code.~~