

AMENDED IN SENATE APRIL 7, 2016

AMENDED IN SENATE MARCH 28, 2016

SENATE BILL

No. 1441

Introduced by Senators Leno and Pavley

February 19, 2016

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

LEGISLATIVE COUNSEL'S DIGEST

SB 1441, as amended, Leno. Natural gas: 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 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.

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 *the* tracking of interstate deliveries.

(2) Under existing law, the 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 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~~: *gas, as specified.*

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
6 percent of the natural gas used in the state being imported from
7 locations across the southwestern United States, the Rocky
8 Mountains, and western Canada before being transported through
9 more than 100,000 miles of pipe to over 11 million customers in
10 state.

11 (b) Methane, the principle component of natural gas, is a
12 greenhouse gas known by the Intergovernmental Panel on Climate
13 Change to have a global warming potential 28 times that of carbon
14 dioxide over a 100-year time horizon and 84 times that of carbon
15 dioxide over a 20-year time horizon.

16 (c) Methane leakage during the drilling, production, and
17 transportation of natural gas used in the state contributes to the
18 overall climate footprint of the energy system of the state, and
19 although additional scientific research and analysis is presently

1 being conducted to evaluate how much methane is leaked, there
2 is enough information and it is imperative to continue to act to
3 reduce that leakage.

4 (d) The Legislature has established a policy goal to significantly
5 reduce emissions of greenhouse gases in California, including
6 methane leakage, but there is insufficient accountability over
7 methane that is released into the atmosphere from operations within
8 the state or from operations connected to gas imported into the
9 state.

10 (e) Requiring accountability for methane leakage associated
11 with operations necessary to bring natural gas to state residents,
12 in addition to adjusting and creating incentives to reduce leakage,
13 will enable a more thorough approach to meeting the state's climate
14 change goals while providing for a full accounting of the state's
15 climate footprint.

16 (f) The Legislature also has established that the safety of the
17 natural gas pipeline infrastructure in the state is a priority for the
18 Public Utilities Commission and gas corporations, and nothing in
19 this act shall compromise or deprioritize safety as a top
20 consideration.

21 (g) While providing just and reasonable rate revenues for
22 California gas corporations to find, categorize, and repair leaks
23 promptly when discovered, including employing an adequate
24 workforce, is in the public interest and promotes the interests of
25 customers and the public, providing revenue to gas corporations
26 to compensate them for the value of gas they lose to the atmosphere
27 is not in the public interest.

28 (h) While action in other states and by the federal government
29 is necessary to fully address methane pollution from operations
30 associated with gas imported into the state, integrating the full
31 climate footprint of California natural gas into statewide planning
32 efforts while also developing initiatives to actually reduce that
33 footprint benefits the environment and reduces the leakage
34 associated with the state's climate programs.

35 SEC. 2. Section 39731.5 is added to the Health and Safety
36 Code, to read:

37 39731.5. (a) Notwithstanding Sections 38550 and 38551, no
38 later than January 1, 2020, the state board, in consultation with the
39 Public Utilities Commission and other relevant state agencies,
40 shall adopt by regulation methane emissions reduction measures

1 for the emissions associated with the extraction, production,
2 storage, processing, and transportation of natural gas used in the
3 state, including imports, that will achieve a reduction in methane
4 emissions of at least 40 percent below 2012 methane emissions
5 levels by 2025.

6 (b) The regulation adopted pursuant to subdivision (a) shall
7 include both of the following:

8 (1) Information gathered or acquired pursuant to subdivision
9 (b) of Section 39731 to determine the 2012 level of methane
10 emissions.

11 (2) Interim targets to reach the methane emissions level
12 described in subdivision (a).

13 (c) The state board, in consultation with the Public Utilities
14 Commission and other relevant state agencies, shall consider all
15 of the following:

16 (1) Developing new incentives or investment programs to
17 facilitate emissions reductions in basins and fields from which the
18 state receives natural gas.

19 (2) Imposing new requirements on the state’s regulated natural
20 gas corporations related to natural gas procurement and *the* tracking
21 of interstate deliveries.

22 (3) Modifying the state’s market-based emissions reduction
23 measures, including a market-based compliance mechanism
24 adopted pursuant to Section 38570, to account for and include
25 methane emissions within the compliance obligations of natural
26 gas utilities or fuel importers.

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

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

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

33 SEC. 3. Section 977 of the Public Utilities Code is amended
34 to read:

35 977. In order to achieve transparency and accountability for
36 rate revenues and best value for ratepayers, and consistent with
37 the commission’s existing ratemaking procedures and authority
38 to establish just and reasonable rates, the commission shall consider
39 all of the following:

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

4 (b) (1) Providing revenues for all activities identified and
5 required pursuant to Section 975, including any adjustment of
6 allowance for lost and unaccounted for gas related to actual leakage
7 volumes.

8 (2) In establishing rates for gas corporations, *to the extent*
9 *feasible as determined by the commission*, in an individual
10 rulemaking proceeding or in general rate cases, the commission
11 shall not allow gas corporations to seek or receive recovery from
12 ratepayers for the value of natural gas lost to the atmosphere during
13 the extraction, production, storage, processing, transportation, and
14 delivery of the natural gas.

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

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

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