

AMENDED IN SENATE APRIL 25, 2016

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~~ *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~~ *2013 levels for systemwide* methane emissions ~~levels from natural gas used in California~~ 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 *a significant portion of its* 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, 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 the 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.

1 (c) Methane leakage during the drilling, production, and
2 transportation of natural gas used in the state contributes to the
3 overall climate footprint of the energy system of the state, and
4 although additional scientific research and analysis is presently
5 being conducted to evaluate how much methane is leaked, there
6 is enough information and it is imperative to continue to act to
7 reduce that leakage.

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

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

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

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

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

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

1 39731.5. (a) Notwithstanding Sections 38550 and 38551, no
2 later than January 1, 2020, the state board, in consultation with the
3 Public Utilities Commission and other relevant state agencies,
4 shall adopt by regulation methane emissions reduction measures
5 for the emissions associated with the extraction, production,
6 storage, processing, and transportation of natural gas used in the
7 state, including imports, that will achieve a reduction in methane
8 emissions of at least 40 percent below ~~2012~~ *2013 levels for*
9 *systemwide methane emissions levels from natural gas used in*
10 *California*, by 2025.

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

13 (1) Information gathered or acquired pursuant to subdivision
14 (b) of Section 39731 to determine the ~~2012 level of~~ *2013 levels*
15 *for systemwide methane emissions*.

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

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

21 (1) Developing new incentives or investment programs to
22 facilitate emissions reductions in basins and fields from which the
23 state receives *a significant portion of its* natural gas.

24 (2) Imposing new requirements on the state's regulated ~~natural~~
25 gas corporations related to natural gas procurement and the tracking
26 of interstate deliveries.

27 (3) Modifying the state's market-based emissions reduction
28 measures, including a market-based compliance mechanism
29 adopted pursuant to Section 38570, to account for and include
30 methane emissions within the compliance obligations of natural
31 gas utilities or fuel importers.

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

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

36 *(d) Regulations adopted pursuant to subdivision (a) shall be*
37 *designed in a manner that seeks to minimize the costs and maximize*
38 *total benefits.*

39 ~~(d)~~

1 (e) This section shall be implemented to the extent feasible and
2 consistent with law.

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

5 977. In order to achieve transparency and accountability for
6 rate revenues and best value for ratepayers, and consistent with
7 the commission's existing ratemaking procedures and authority
8 to establish just and reasonable rates, the commission shall consider
9 all of the following:

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

13 (b) (1) Providing revenues for all activities identified and
14 required pursuant to Section 975, including any adjustment of
15 allowance for lost and unaccounted for gas related to actual leakage
16 volumes.

17 (2) In establishing rates for gas corporations, to the extent
18 feasible as determined by the commission, in an individual
19 rulemaking proceeding or in general rate cases, the commission
20 shall not allow gas corporations to seek or receive recovery from
21 ratepayers for the value of natural gas lost to the atmosphere during
22 the extraction, production, storage, processing, transportation, and
23 delivery of the natural gas.

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

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