SENATE COMMITTEE ON ENERGY, UTILITIES AND COMMUNICATIONS
Senator Steven Bradford, Chair
2023 - 2024 Regular

Bill No:	AB 678	**Hearing Date:**	7/3/2023
Author:	Alvarez		
Version:	3/27/2023 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Biomethane procurement targets or goals: core transport agents

DIGEST: This bill would extend the authority of the California Public Utilities Commission (CPUC) to establish biomethane procurement targets on gas corporations to also include core transport agents - third-party natural gas providers.

ANALYSIS:

Existing law:

1) Establishes and vests the CPUC with regulatory authority over public utilities, including gas corporations. (California Constitution Article XII)

2) Requires the CPUC to require each gas corporation to provide bundled basic gas service to all core customers in its service territory unless the customer chooses or contracts to have natural gas purchased and supplied by another entity. (Public Utilities Code §328.2)

3) Requires the CPUC, in consultation with the California Air Resources Board (CARB), to consider adopting specific biomethane procurement targets or goals for each gas corporation. (Public Utilities Code §§650 and 651)

4) Defines "core transport agent" to mean an entity that offers core gas procurement service to customers within the service territory of a gas corporation, but does not include a gas corporation, and does not include a public agency that offers gas service to core and noncore gas customers within its jurisdiction, or within the service territory of a local publicly owned gas utility. "Core transport agent" includes the unregulated affiliates and subsidiaries of a gas corporation. (Public Utilities Code §980)

5) Requires core transport agents to register with the CPUC and provide specified information under oath, including disclosure of any civil, criminal, or regulatory sanctions. Requires the CPUC to issue a registration number no later than 45 days when all information has been submitted. (Public Utilities Code §§981 and 982)

6) Directs CARB to ensure that statewide greenhouse gas (GHG) emissions are reduced to 40 percent below the 1990 level by 2030. (Health and Safety Code §38566)

7) Requires CARB to implement a strategy to reduce emissions of short-lived climate pollutants to achieve a reduction in methane by 40 percent, hydrofluorocarbon gases by 40 percent, and anthropogenic black carbon by 50 percent below 2013 levels by 2030. (Health and Safety Code §39730.5)

8) Directs CARB to adopt regulations to reduce methane emissions from livestock and dairy manure by up to 40 percent below 2013 levels by 2030 granted the regulations are economically feasible and a market exists for the products generated by these projects. (Health and Safety Code §39730.7)

9) Requires the CPUC to adopt standards for biomethane that specify the concentrations of constituents of concerns that are reasonably necessary to protect public health and ensure pipeline integrity and safety and to adopt monitoring, testing, reporting and recordkeeping protocols. (Health and Safety Code §25421)

10) Requires the CPUC to hold public hearings to identify impediments that limit procurement of biomethane in California, including impediments to interconnection, and to offer solutions. (Health and Safety Code §25326)

11) Requires the CPUC to adopt pipeline access rules that ensure that each gas corporation provides nondiscriminatory access to the gas pipeline system to any party for the purposes of physically interconnecting with the gas pipeline system and effectuating the delivery of gas. (Public Utilities Code §784)

12) Requires the CPUC to adopt policies and programs that promote the in-state production and distribution of biomethane and requires that those policies and programs facilitate the development of a variety of sources of in-state biomethane. (Public Utilities Code §399.24)

This bill revises the requirement on the CPUC to consider adopting biomethane procurement targets or goals for each gas corporation to instead require the CPUC to consider adopting specific biomethane procurement targets or goals for each gas corporation and core transport agent.

Background

Core transport agents (CTAs). CTAs are third-party natural gas fuel suppliers who procure natural gas on behalf of core customers, largely residential and small commercial customers who otherwise receive gas procurement services from a natural gas investor-owned utility (IOU). Core customers within a natural gas IOU may elect to have their natural gas supplied by a CTA, however, customers continue to pay the natural gas IOU for the gas delivery service via the distribution pipelines. CTA rates are not regulated by the CPUC, but statute requires CTAs to register with the CPUC in order to conduct business in the state. The CPUC has the authority to suspend or revoke the registration of a noncompliant CTA and can help address customer complaints against CTAs. As of the most current list of registered CTAs available on the CPUC website, there are 36 registered CTAs providing natural gas fuel to customers within the service territories of Pacific Gas & Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), and Southwest Gas Corporation (Southwest Gas). Some CTAs provide service to certain customer classes, such as medium and large commercial customers, while others provide service to any core customers within the gas corporation's service territory. In general, CTAs provide service to a small fraction of the gas corporations' core customers.

Biomethane. Biomethane – also referred to as renewable natural gas or RNG – is combustible gas produced from the anaerobic decomposition of organic materials that are captured and then purified to a quality suitable for injection into a natural gas utility pipeline. Sources of biomethane include: landfill waste (non-hazardous), waste from wastewater treatment facilities, organic waste, forest and other wood waste, agriculture and food processing waste, and animal manure. Methane emissions from these waste streams can be captured to create biomethane which is used as a direct replacement for fossil natural gas, thereby helping to reduce GHGs emissions. Unlike fossil natural gas, biomethane can be produced sustainably and consistently as it is derived from sources that are constantly being replenished because of regular human and animal activity.

Biomethane considered renewable energy. Biomethane is biogas that has been cleaned and processed to remove impurities. Although the combustion of biogas releases carbon dioxide (CO_2), it also destroys methane, which is a more potent GHG than CO_2 because of its global warming potential and is considered a short-

lived climate pollutant. Biomethane is considered carbon neutral because CO_2 that would be released into the atmosphere is utilized and thereby removed from the atmosphere. The usage of biomethane can also displace energy consumption from fossil fuels, thereby decreasing carbon intensity.

Biomethane procurement targets. Pursuant to SB 1440 (Hueso, Chapter 739, Statutes of 2018), the CPUC is required to consider adopting biomethane procurement targets or goals for each natural gas IOU. In February 2022, the CPUC adopted Decision 22-02-025 which established biomethane procurement targets for the state's large natural gas IOUs – namely PG&E, SDG&E, SoCalGas, and Southwest Gas. The CPUC decision established a biomethane procurement program intended to help achieve the state's short-lived climate pollutants goals which call for a 40 percent reduction in methane and other short-lived climate pollutants by 2030. Renewable gas procurement is intended to help reduce otherwise uncontrolled methane and black carbon emissions in waste, landfill, agricultural, and forest management sectors.

The decision establishes short-term and medium-term procurement goals:

- A short-term biomethane procurement target of 17.6 billion cubic feet of biomethane annually beginning in 2025, which corresponds to eight million tons of organic waste diverted annually from landfills. Each gas corporation is responsible for procuring a percentage of the total in accordance with its respective Cap-and-Trade allowance shares, as follows: PG&E 42.34 percent, SDG&E 6.77 percent, SoCalGas 49.26 percent, and Southwest Gas 1.63 percent.
- A medium-term target for biomethane procurement of 72.8 billion cubic feet per year beginning in 2030, is the Renewable Gas Standard for gas corporations. This higher amount will help the state achieve its goal to reduce methane emissions 40 percent by 2030. It reflects approximately 12.2 percent of bundled core customers' usage in 2020.

Biomethane produced from dairies is limited. The CPUC limited the use of biomethane produced from dairies to only a limited amount within the medium-term target and none within the short-term target, given there are other state programs to incentivize biomethane procurement from dairies. For the medium-term goal, there is a ceiling on dairy biomethane of four percent of total biomethane procurement. Measures are required to avoid adverse environmental impacts to air and water quality from any dairies that provide biomethane.

Need to re-evaluate medium-term procurement target. The CPUC Decision stated the medium-term target would be re-evaluated beginning in 2025, including taking into consideration progress made toward achieving the short-term target, additional analysis on technical and economic feasibility, market conditions, procurement rules, eligible time periods for contracts and contract duration, and outcomes from the Long-Term Gas Planning Order Instituting Rulemaking 20-01-007.

Comments

AB 678. This bill would extend the authority of the CPUC to establish biomethane procurement requirements on gas corporations, pursuant to SB 1440, to include CTAs. This bill's proponents state that the CPUC decision contemplated extending biomethane procurement requirements to CTAs but noted that statutory authority was needed. Per the CPUC decision:

> "Ideally, legislation should be enacted requiring CTAs to procure biomethane at the same rate as the Joint Utilities [the four large gas corporations], similar legislation enacted in 2005 [SB 1078 (Sher, Chapter 516, Statutes of 2002] that requires Community Choice Aggregators to comply with RPS [renewable portfolio standard] compliance obligations established by the Commission [CPUC]. The Office of Governmental Affairs shall work with the Legislature and stakeholders to achieve this objective." [*CPUC Decision 22-02-025*, page 44]

CPUC required to evaluate cost-effectiveness. While procurement for biomethane is more expensive than natural gas (at a cost of double or more), the CPUC decision found the procurement targets to be cost-effective in consideration of achieving the state's policy goals. As part of SB 1440, the CPUC is required to make specified findings prior to establishing biomethane procurement targets, including that they are a cost-effective means of achieving the goals to reduce short-live climate pollutants and other GHGs. In the decision, the CPUC specifically cites the average costs of biomethane at $17.70 per metric million British thermal units (MMBtu) and the social cost of methane at $26 MMBtu, while also noting additional benefits in cost savings for ratepayers from reduced upstream interstate transmission use, avoided Cap-and-Trade payments due to decreased fossil fuel use, and avoided fossil gas commodity cost. The decision also requires a three-tiered advice letter process to review and approve biomethane procurement contracts based on costs, with higher priced contracts, including any priced above the social cost of methane, requiring more review and scrutiny by the CPUC. Additionally, the CPUC affords gas corporations flexible compliance methods to protect against being a captured buyer, specifically allowing gas corporations: unlimited forward banking of excess procurement; carrying over of

an annual deficit of 25 percent to the next three years; trading excess supplies among themselves; and procuring on behalf of each other. Additionally, the CPUC agreed with parties to the proceeding that cost-containment provisions are necessary to avoid excessive rate increases.

Costs to ratepayers. As noted above, procurement of biomethane increases costs to natural gas ratepayers. As currently applied, these costs are solely borne by core customers of natural gas IOUs, while customers of CTAs are currently exempt from these requirements. This disparate application of the procurement requirements can lead to a competitive disadvantage among providers based on the state's policy. This bill attempts to level the playing field so that the biomethane procurement requirements are also applied to all core customers in the state, regardless of the natural gas provider. The CPUC has argued that such an application is akin to the state requiring renewable energy procurement requirements of all load-serving entities. The organizations opposed to this bill argue that extending the biomethane procurement requirement to CTAs will further increase natural gas costs in California for all ratepayers. While they acknowledge the lack of a level playing field among providers, they urge consideration of amendments that would limit the procurement requirements to those already adopted by the CPUC, but spread the costs to all customers. Additionally, NRG writing in support, if amended, similarly acknowledges the nascent stage of development of the biomethane market. NRG contends that "large wholesale buyers such as the gas corporations would be in a disproportionately more favorable position to meet the current biomethane mandate and facilitate the entry of new biomethane supply as compared to the CTAs due to economies of scale." NRG requests amendments that include the option for CTAs to have a gas corporation procure the biomethane on their behalf, with the costs paid for by the CTA or their customers and request similar flexibility afforded to gas corporations in the CPUC decision.

Need for amendments. In addition to the many cost-containment provisions incorporated into the decision to adopt procurement requirements, including revisiting the medium-term targets in 2025, the CPUC also acknowledged the potential to utilize a nonbypassable charge collected from all natural gas customers within the service territories of the large gas corporations, which would include CTA customers, as an alternative approach that will be considered in a future proceeding. Such an approach may help address the concerns by the opposition, in so far as the existing procurement requirements are not expanded, and allay concerns by CTAs, as raised by NRG, that provide the option to have gas corporations procure on behalf of CTA customers. *Without prejudging the CPUC's future determination on whether to utilize a nonbypassable charge, the author and*

committee may wish to amend this bill to explicitly authorize the CPUC to provide CTAs the option for gas corporations to procure the biomethane on behalf of the CTA, with the costs paid for by the CTA or their customers.

Prior/Related Legislation

SB 1440 (Hueso, Chapter 739, Statutes of 2018) required the CPUC, in consultation with the CARB, to consider adopting specific biomethane procurement targets or goals for each natural gas corporation. The bill required the CPUC, if the CPUC adopts those targets or goals, to take certain actions in regards to the development of the targets or goals and the procurement of the biomethane to meet those targets or goals.

SB 1383 (Lara, Chapter 395, Statutes of 2016) required state agencies to consider and, as appropriate, adopt policies and incentives to significantly increase the sustainable production and use of renewable gas, including biomethane to meet the state's climate change, renewable energy, low-carbon fuel, and short-lived climate pollutants goals, including black carbon, landfill diversion, and dairy methane targets.

SB 840 (Committee on Budget and Fiscal Review, Chapter 341, Statutes of 2016) required the CPUC to reevaluate its requirements and standards for biomethane to be injected into common carrier pipelines.

AB 1900 (Gatto, Chapter 602, Statutes of 2012) directed the CPUC to identify landfill gas constituents, develop testing protocols for landfill gas injected into common carrier pipelines, adopt standards for biomethane to ensure pipeline safety and integrity, and adopt rules to ensure open access to the gas pipeline system.

AB 2196 (Chesbro, Chapter 605, Statutes of 2012) ensured that biogas qualifies for RPS credit, provided its production, delivery and use meet certain conditions.
SB 1122 (Rubio, Chapter 612, Statutes of 2012) required IOUs to collectively procure at least 250 MW of generation eligible for the RPS from bioenergy generation project, including biogas projects.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

SUPPORT:

Southern California Gas Company, Sponsor
Bioenergy Association of California
California Hydrogen Business Council

Coalition for Renewable Natural Gas
Electrochaea Corporation
Los Angeles County Sanitation Districts
NRG Energy, if amended
Utility Workers Union of America

OPPOSITION, unless amended:

Agricultural Council of California
Agricultural Energy Consumers Association
California Cotton Ginners & Growers Association
California Farm Bureau
California Fresh Fruit Association
California League of Food Producers
California Manufactures & Technology Association
California Tomato Growers Association
Far West Equipment Dealers Association
Nisei Farmers League
Western Agricultural Processors Association

ARGUMENTS IN SUPPORT: According to the author:

> California is the first state to establish a Renewable Gas Standard (RGS), but to achieve the desired intended results, legislation needs to be enacted to ensure that all core gas customers participate in the state's decarbonization efforts fairly and equitably. AB 678 supports decarbonization efforts while leveling the playing field for all gas customers by requiring the California Public Utilities Commission (CPUC) to establish biomethane procurement targets for Core Transport Agents (CTAs).

ARGUMENTS IN OPPOSITION: The coalition of organizations in opposition to this bill raise concerns that extending the biomethane procurement requirements to CTAs will further increase costs of natural gas further burdening residential, commercial, agricultural, and industrial customers. They argue that this bill should be amended to limit the procurement to the existing targets, just spread out among all procurement entities and natural gas users.

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