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**Senate Bill No. 1221****CHAPTER 602**

An act to add and repeal Section 451.9 of, and to add and repeal Article 11 (commencing with Section 660) of Chapter 3 of Part 1 of Division 1 of, the Public Utilities Code, relating to gas corporations.

[ Approved by Governor September 25, 2024. Filed with Secretary of State September 25, 2024. ]

**LEGISLATIVE COUNSEL'S DIGEST**

SB 1221, Min. Gas corporations: ceasing service: priority neighborhood decarbonization zones.

Existing law vests the Public Utilities Commission with regulatory authority over public utilities, including gas corporations. Existing law requires every public utility to furnish and maintain adequate, efficient, just and reasonable service, instrumentalities, equipment, and facilities as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.

This bill would require each gas corporation, on or before July 1, 2025, and annually thereafter, to submit to the commission a map containing certain information, including the location of all potential gas distribution line replacement projects identified in its distribution integrity management plan and other foreseeable gas distribution pipeline replacements. The bill would require the commission, on or before January 1, 2026, to designate priority neighborhood decarbonization zones considering, among other things, the concentration of gas distribution line replacement projects identified in the maps. The bill would require the commission, on or before July 1, 2026, to establish a voluntary program to facilitate the cost-effective decarbonization of priority neighborhood decarbonization zones, as defined, not to exceed 30 pilot projects across the state and affecting no more than 1% of each gas corporation's customers within its service territory, except as provided. The bill would prohibit the commission from establishing pilot projects on or after January 1, 2030. The bill would require the commission to establish various processes, criteria, methodology, and requirements in administering the pilot projects, including by establishing the criteria and methodology for determining the cost-effectiveness of zero-emission alternatives, as defined, and establishing the appropriate rate of return and recovery period that a gas corporation is eligible to receive for their costs to implement zero-emission alternatives. The bill would authorize a gas corporation to cease providing, and would require the commission to relieve the gas corporation of its obligation to provide, service in an area within the gas corporation's service territory where a pilot project has been implemented if the commission determines that adequate substitute energy service is reasonably available to support the energy end uses of affected gas corporation customers, as provided. The bill would also require the commission to submit various reports to the relevant committees of the Legislature regarding the pilot projects, as provided. The bill would, except as provided, repeal the above-described provisions on January 1, 2031.

Under existing law, a violation of the Public Utilities Act or an order, decision, rule, direction, demand, or requirement of the commission is a crime.

Because the above requirements would be codified in the act and a violation of those requirements or a commission action implementing those requirements would be a crime, this bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: yes

## THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

### **SECTION 1.** (a) The Legislature finds and declares all of the following:

- (1) California is leading the nation in moving toward clean, renewable forms of energy to fight climate change and improve the health and well-being of residents.
- (2) Natural gas demand is already declining as California transitions away from natural gas to achieve the state's energy efficiency, climate, and air quality objectives.
- (3) Without active planning and management, reduced demand for natural gas will result in higher gas rates, with a disproportionate burden on vulnerable customers.
- (4) A longer term planning process is necessary to evaluate zero-emission alternatives, including neighborhood electrification and thermal energy networks, that could avoid new capital investment in the gas system that may become stranded assets and to reduce upward pressure on gas rates.
- (5) Installation of electric heat pump space conditioning systems, which provide both efficient heating and cooling, is particularly valuable in frontline communities to improve occupant comfort and increase resilience to heat waves because members of those communities are more likely to lack access to air conditioning.
- (6) Cost-effective, zero-emission alternatives to pipeline replacement projects both reduce gas system costs and further California's efforts to reduce greenhouse gas emissions and improve air quality.
- (7) Deployment of zero-emission alternatives should prioritize high road jobs for workers.
- (8) Deployment of zero-emission alternatives should prioritize benefits to disadvantaged and low-income communities and include tenant protections.

(b) It is the intent of the Legislature that the Public Utilities Commission authorize gas corporations to deploy a limited and targeted number of pilot projects to decommission portions of the natural gas corporation distribution system.

(c) It is further the intent of the Legislature that pilot projects authorized by the Public Utilities Commission will provide lessons, including by identifying, documenting, and reporting on key challenges and successes, hurdles to customer participation, cost and affordability implications, customer satisfaction, and other outcomes concerning natural gas corporation distribution system decommissioning and electrification.

### **SEC. 2.** Section 451.9 is added to the Public Utilities Code, to read:

**451.9.** (a) Notwithstanding Section 451, a gas corporation may cease providing service in an area within its service territory where a pilot project has been implemented pursuant to Section 663 if the commission determines that adequate substitute energy service is reasonably available to support the energy end uses of affected gas corporation customers.

(b) (1) In determining what constitutes adequate substitute energy service and when the substitute energy service is reasonably available, the commission shall adopt guidelines necessary to ensure that the rates for substitute energy service are just and reasonable as provided by a load-serving entity as the provider of last resort pursuant to Section 387.

(2) The commission may authorize a gas corporation to recover the undepreciated costs of any gas plant or asset, including the cost to retire the gas plant or asset that will no longer be used and useful. The commission shall determine the just and reasonable recovery of undepreciated costs, including the period over which the undepreciated costs are recovered so as to minimize impacts to remaining gas distribution system customers.

(c) This section does not modify the authority of the commission to determine adequate, efficient, just, and reasonable service.

(d) (1) Except as provided in paragraph (2) or (3), this section shall remain in effect only until January 1, 2031, and as of that date is repealed.

(2) Paragraph (1) does not affect the termination of a gas corporation's obligation to provide service that is authorized under this section on or before January 1, 2031.

(3) Paragraph (1) does not affect the authority of the commission under this section to relieve a gas corporation of its obligation to provide service within the approved boundary of a pilot project approved pursuant to Section 663 that is pending as of January 1, 2031.

**SEC. 3.** Article 11 (commencing with Section 660) is added to Chapter 3 of Part 1 of Division 1 of the Public Utilities Code, to read:

**Article 11. Neighborhood Decarbonization Zone Pilot Projects**

**660.** For purposes of this article, the following definitions apply:

(a) "Disadvantaged community" means a community identified pursuant to Section 39711 of the Health and Safety Code.

(b) "Distribution integrity management plan" means a plan developed pursuant to Part 192 (commencing with Section 192.1) of Subchapter D of Chapter I of Subtitle B of Title 49 of the Code of Federal Regulations.

(c) "Gas distribution line" means either a gas distribution main line or gas distribution service line.

(d) "Gas distribution main line" has the same meaning as "main" set forth in Section 192.3 of Title 49 of the Code of Federal Regulations.

(e) "Gas distribution service line" has the same meaning as "service line" set forth in Section 192.3 of Title 49 of the Code of Federal Regulations.

(f) "Low-income" means having a household income no greater than 80 percent of area median income or qualifying for participation in the California Alternate Rates for Energy (CARE) program or Family Electric Rate Assistance (FERA) program.

(g) "Priority neighborhood decarbonization zone" means a zone identified pursuant to Section 662.

(h) "Thermal energy network" means a network of piped noncombustible fluids used for transferring heat into and out of buildings for purposes of providing zero-emission heating and cooling services.

(i) "Tribe" means a California Native American tribe, as defined in Section 21073 of the Public Resources Code.

(j) "Zero-emission alternatives" means methods of providing gas customers with suitable substitute energy service that does not require new investment in gas distribution lines, including, but not limited to, electrification of gas end uses and energy efficiency, thermal energy networks, and demand flexibility measures to alter energy needs.

**661.** (a) On or before July 1, 2025, and each year thereafter, each gas corporation shall submit to the commission a map that includes all of the following:

(1) The location of all potential gas distribution line replacement projects identified in its distribution integrity management plan and any foreseeable gas distribution pipeline replacements.

(2) The city, county, and census tract boundaries within the gas corporation's service territory.

(3) Locations of disadvantaged communities, tribes, and priority neighborhood decarbonization zones, as designated by the commission pursuant to Section 662, that are within the gas corporation's service territory.

(4) Any additional information required by the commission.

(b) This section does not modify a gas corporation's safety requirements under state or federal law.

(c) On or after January 1, 2030, the commission may determine whether gas corporations will continue to be subject to the requirements of this section.

**662.** (a) On or before January 1, 2026, in a new or existing proceeding and following recommendations from each gas corporation and the opportunity for public comment, the commission shall designate priority neighborhood decarbonization zones. In designating the zones, the commission shall consider factors that include, but are not limited to, all of the following:

(1) Presence of disadvantaged or low-income communities in high-temperature climate zones or low-temperature climate zones that disproportionately lack cooling or heating.

(2) Presence of environmental and social justice communities as defined in the commission's Environmental and Social Justice Action Plan.

(3) Availability of supportive local government or community partners.

(4) Concentration of gas distribution line replacement projects identified in the map submitted pursuant to Section 661.

(b) The commission shall coordinate with relevant agencies to identify nonratepayer funding, such as state and federal funds, that may be used to execute pilot projects in priority neighborhood decarbonization zones that would be cost effective with supplemental nonratepayer funding.

(c) If pilot projects for zero-emission alternatives pursuant to Section 663 are implemented in a priority neighborhood decarbonization zone, the commission may direct gas corporations and electrical corporations, if appropriate, to leverage other available programs, including, but not limited to, energy efficiency, low-income weatherization, and distributed generation programs.

(d) The commission may, after providing an opportunity for public comment, update the priority neighborhood decarbonization zones as necessary.

**663.** (a) On or before July 1, 2026, in a new or existing proceeding, the commission, in consultation with the state's gas corporations, shall establish a voluntary program to facilitate the cost-effective decarbonization of priority neighborhood decarbonization zones, not to exceed 30 pilot projects across the state and affecting no more than 1 percent of each gas corporation's customers within their service territory. A pilot project where a gas corporation obtains the consent of 100 percent of property owners with natural gas service within the pilot project boundary shall not count toward the 30 pilot project limit.

(b) In administering the pilot projects established pursuant to subdivision (a), the commission shall establish all of the following:

(1) A process for gas corporations to determine and submit pilot projects for approval.

(2) Criteria and methodology for determining the cost-effectiveness of a zero-emission alternative as compared to replacement, repair, or continued operation of the affected asset of the gas system. Nonenergy benefits may be considered in prioritizing pilot projects, but shall not be used to calculate cost-effectiveness. The total cost incurred by the gas corporation for the zero-emission alternative shall be less than the total cost that would have otherwise occurred. Gas corporations shall use nonratepayer funding when available.

(3) Requirements and programs to ensure that a substitute for gas service for low-income customers is affordable, adequate, efficient, and just and reasonable.

(4) A requirement that no less than 67 percent of the property owners with natural gas service within the pilot project boundary consent to the pilot project. The commission shall establish the manner in which consent shall be received and notifications about the pilot project shall be provided to property owners and affected customers. Notifications shall include information about the anticipated costs and benefits of the zero-emission alternative offering. Notifications shall be made available in the zone's prevailing languages.

(5) A requirement for addressing master-metered properties to ensure tenants receive adequate notification and engagement.

(6) A preference for pilot projects that provide prevailing wages and use high road job programs.

(7) A requirement that gas corporations and electrical corporations, local publicly owned electric utilities, load-serving entities, local governments, and, if feasible, core transport agents affected by the pilot project coordinate and collaborate.

(8) A requirement that gas corporations recover costs related to the pilot projects that are deemed just and reasonable and a requirement that prohibits a gas corporation from recovering behind-the-meter costs associated with the pilot projects as capital costs that are afforded a rate of return.

(9) The appropriate rate of return and recovery period that a gas corporation is eligible to receive for its costs to implement a zero-emission alternative. A gas corporation shall not receive ratepayer funding for the costs of a zero-emission alternative that are covered by incentives under federal, state, or local laws.

(c) Notwithstanding any other law, if the commission approves a pilot project proposed by a gas corporation pursuant to subdivision (a), the commission shall, pursuant to Section 451.9, relieve the gas corporation of its obligation to provide service within the pilot project boundary upon completion of all affected customers' conversion to zero-emission alternatives. A property owner's withholding of consent to a pilot project shall not give rise to a right to continued natural gas service if the commission approves a pilot project that includes that property within its boundary.

(d) The commission shall not establish pilot projects under this section on or after January 1, 2030.

**664.** (a) (1) Beginning on January 1, 2029, the commission, in a new or existing proceeding, shall review the efficacy of the pilot projects established pursuant to Section 663 in providing benefits to gas corporation customers and in assisting the state in meeting the state's climate change goals.

(2) On or before March 1, 2030, the commission shall submit to the relevant policy committees of the Legislature a report on the review performed pursuant to paragraph (1).

(b) On or before March 1, 2026, and on or before March 1 of each year thereafter, the commission shall submit a progress report to the relevant policy committees of the Legislature summarizing the findings of the pilot projects, including the locations of the pilot projects, the number of customers affected, the costs of the pilot projects, the funding used to pay for the pilot projects, any assistance provided to customers, and any outcomes, challenges, and recommendations.

(c) Reports submitted pursuant to this section shall be submitted in compliance with Section 9795 of the Government Code.

**665.** In a new or existing proceeding, the commission shall evaluate the costs and benefits of thermal energy networks and identify potential implementation barriers.

**666.** (a) Except as provided in subdivision (b) or (c), this article shall remain in effect only until January 1, 2031, and as of that date is repealed.

(b) Notwithstanding subdivision (a), a pilot project that has been established pursuant to Section 663 and is pending as of January 1, 2031, may continue until the completion of the pilot project.

(c) Subdivision (a) does not affect the commission's authorization to relieve a gas corporation of its obligation to provide service within a pilot project boundary under subdivision (c) of Section 663.

**SEC. 4.** No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.