

Date of Hearing: June 24, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

SB 1359 (Stern) – As Amended June 15, 2026

SENATE VOTE: 23-13

SUBJECT: Natural Gas Ratepayer Protection Act

SUMMARY: Requires gas corporations to submit annual reports to the California Public Utilities Commission (CPUC) detailing expenditures on gas distribution infrastructure replacement and upgrade projects, and imposes new requirements on the CPUC governing cost recovery and depreciation for such projects. Specifically, **this bill:**

- 1) Requires each gas corporation to submit an annual report to the CPUC describing expenditures, during the pendency of its current general rate case (GRC) cycle, associated with gas distribution infrastructure replacement and upgrade projects, including: planned and forecasted expenditures; project status; estimated remaining costs and projected completion dates; wildfire-related memorandum account expenditures; material changes in customer counts, gas throughput, or other assumptions used to justify projects, including an assessment of stranded asset risk; and available electrification and nonpipeline alternatives.
- 2) Authorizes the CPUC to require the annual report to be submitted in a format that facilitates public review and comparison of authorized versus actual expenditures.
- 3) Requires the CPUC, before authorizing recovery of costs associated with a gas distribution infrastructure replacement and upgrade project, to consider whether cost-effective electrification alternatives or nonpipeline alternatives could reasonably avoid or reduce those costs.
- 4) Requires the CPUC to evaluate whether depreciation schedules for gas distribution infrastructure replacement and upgrade projects appropriately reflect projected reductions in gas demand, and to consider alternative depreciation methodologies that minimize future ratepayer exposure to stranded asset costs.

EXISTING LAW:

- 1) Establishes and vests the CPUC with regulatory authority over public utilities, including gas corporations. (Article XII of the California Constitution)
- 2) Authorizes the CPUC to fix the rates and charges for every public utility and requires that those rates and charges be just and reasonable. (Public Utilities Code § 451)
- 3) Requires, until at least December 31, 2029, each gas corporation to submit to the CPUC a map that includes, among other things, the location of all potential gas distribution line replacement projects identified in its distribution integrity management plan and any foreseeable gas distribution pipeline replacements, as provided. (Public Utilities Code § 661)

FISCAL EFFECT: Unknown. This bill is keyed fiscal, and will be referred to the Assembly Committee on Appropriations for its review. According to the Senate Committee on Appropriations, a prior version of this bill would result in a fiscal impact to the CPUC potentially in the hundreds of thousands of dollars annually (ratepayer funds) and to the extent that the bill impacts energy rates, could result in costs or savings to the state as an energy utility ratepayer. The bill has been substantially amended since this fiscal review.

BACKGROUND:

Natural gas in California – California’s natural gas corporations provide service to over 11 million gas meters. Southern California Gas Company (SoCalGas) and Pacific Gas & Electric (PG&E) provide service to about 5.9 million and 4.3 million customers, respectively, while San Diego Gas & Electric (SDG&E) provides service to over 800,000 customers. The overwhelming majority of natural gas utility customers in California are residential and small commercial customers, referred to as “core” customers. Larger volume gas customers, like electric generators and industrial customers, are called “noncore” customers. Although very small in number relative to core customers, noncore customers consume about 65% of the natural gas delivered by the state’s natural gas corporations, while core customers consume about 35%.¹ Specifically for residential customers, about 91% of California homes are connected to the gas system (compared to 65% of homes nationally).² Natural gas is predominantly used for water and space heating, but also other home appliances such as gas stoves, clothes dryers, and fireplaces.³ Despite the prevalence of natural gas in California homes, use of natural gas has been on the decline, driven in part by energy efficiency and fuel substitution.^{4,5}

The gas distribution system – Imported gas (nearly 90% of California’s supply)⁶ is transported through interstate pipelines until it is delivered to the utilities’ high-pressure transmission system and then onto the lower-pressure distribution system. This system makes up over 100,000 miles of transmission and distribution pipelines in the state.⁷ Most customers receive gas through service lines that connect distribution mains to the customer’s meter; these service lines add thousands more miles of lines that must be maintained. Despite a decrease in natural gas use, gas infrastructure must be maintained to meet rigorous safety and reliability standards. Capital costs are included in the “rate base,” and each utility receives a rate of return on this amount. Gas infrastructure makes up a significant fraction of the total amount collected from customers (73%

¹ Customers and Volumes, CPUC, https://www.cpuc.ca.gov/natural_gas/.

² U.S. Census Bureau, 2021 American Housing Survey. <https://www.census.gov/programs-surveys/ahs/data/interactive/ahstablecreator.html>.

³ Palmgren, Claire, Miriam Goldberg, Ph.D., Bob Ramirez, Craig Williamson, and DNV GL Energy Insights USA, Inc. 2019. 2019 California Residential Appliance Saturation Study. California Energy Commission. Publication Number: CEC-200-2021-005. <https://www.energy.ca.gov/publications/2021/2019-california-residential-appliance-saturationstudy-rass>

⁴ <https://www.eia.gov/todayinenergy/detail.php?id=66704>

⁵ 2024 Joint Agency Staff Paper: Progress Towards a Gas Transition, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M525/K660/525660391.PDF>

⁶ Supply and Demand of Natural Gas in California, CEC, <https://www.energy.ca.gov/data-reports/energy-almanac/californias-natural-gas-market/supply-and-demand-natural-gas-california#:~:text=Natural%20gas%20continues%20to%20play,plants%20rely%20on%20this%20fuel.>

⁷ <https://www.socalgas.com/documents/news-room/factsheets/PipelineBasics.pdf#:~:text=Most%20of%20the%20natural%20gas%20consumed%20by,Southern%20California%20from%20onshore%20and%20offshore%20fields.>

in 2021).⁸ Gas rates can increase if the utility's costs go up, but they can also increase if costs stay the same, but customers are using less gas. Therefore, as gas customers reduce their gas use and electrify their homes, gas rates may rise.

Existing Reporting Mechanisms and Proceedings – The CPUC has access to gas corporation planning and project information through multiple existing regulatory mechanisms, and is managing the long-term transition of the natural gas system through several ongoing proceedings.

At the proceeding level, the CPUC's Long-Term Gas Planning Rulemaking (R.24-09-012) is evaluating how to decarbonize the gas system while maintaining safe, reliable, and affordable service, advancing equity, supporting the gas workforce, and examining alternatives to natural gas. Individual GRCs and standalone applications also increasingly include proposals tied to the gas transition, such as gas customer minimum bills, zonal decarbonization projects, and deployments of clean heat or alternative fuels.

At the project and spending oversight level, gas corporations undergo a Risk Assessment and Mitigation Phase (RAMP) prior to each GRC cycle, submitting risk assessments and mitigation plans to the CPUC's Safety Policy Division every four years.⁹ The RAMP covers safety, reliability, and financial risks – including those associated with gas system integrity – and the gas corporation's proposed mitigation costs. The CPUC's evaluation of the RAMP directly informs the subsequent GRC. Between rate cases, gas corporations file annual Risk Spending Accountability Reports (RSARs) that compare GRC-authorized spending on approved risk mitigation projects to actual recorded spending, and require explanation of any significant variances.¹⁰ RSARs also include completion status reporting for safety, reliability, and maintenance programs.

At the project level, General Order 177 (GO 177), adopted by the CPUC in December 2022, established additional project-level oversight requirements.¹¹ Gas corporations must obtain a Certificate of Public Convenience and Necessity (CPCN) before beginning any gas project – including new construction or modification, alteration, or addition to existing facilities – that costs more than \$75 million, or that is located within 1,000 feet of a sensitive receptor that requires an air quality permit, unless the project qualifies for an exemption such as safety-mandated work or emergency repairs. CPCN applications must include analysis of non-pipeline alternatives, project need accounting for projected declines in gas demand, estimated useful life, consistency with state greenhouse gas reduction goals, and equity considerations. GO 177 also requires gas corporations to file annual Reports of Planned Gas Investments each March 1, covering any project expected to exceed \$50 million, including 10-year investment forecasts and high-level analysis of non-pipeline alternatives for near-term projects.

⁸ Joint Agency Staff Report, *Ibid.*

⁹ The RAMP was initially established by CPUC Decision D.14-12-025 (2014) and has been refined through subsequent decisions, most recently in R.20-07-013.

¹⁰ RSAR requirements were established by D.14-12-025 and refined by D.19-04-020 and D.22-10-002. Gas corporations are required to file RSARs annually; the current filing deadline for most gas corporations is April 30 of each year.

¹¹ GO 177 was adopted pursuant to D.22-12-021 as part of R.20-01-007, the CPUC's long-term gas system planning proceeding.

Most recently, SB 1221 (Min, Chapter 602, Statutes of 2024) authorized up to 30 voluntary pilot projects to study the challenges of transitioning away from the natural gas system at the neighborhood level. The pilot projects require consent from at least 67% of property owners within each pilot project boundary and must be more cost-effective for ratepayers than proposed upgrades to the existing natural gas system. The CPUC has designated 151 initial Priority Neighborhood Decarbonization Zones and has issued a proposed decision establishing the application process for the pilot programs.

COMMENTS:

- 1) *Author's Statement.* According to the author, "California's gas utilities continue to spend billions of dollars for long-term infrastructure investments that ratepayers may still be paying for decades from now. SB 1359 ensures that the Public Utilities Commission, consumer advocates, and the public have better information about planned gas distribution system investments and whether lower-cost alternatives could avoid future costs. This bill is about transparency, accountability, and protecting ratepayers from being left with the bill for infrastructure that may no longer be needed in the years ahead, all while not sacrificing safety or reliability. SB 1359 will ensure that existing efforts to plan the long-term future of the state's gas system will get integrated into critical near-term investment decisionmaking."
- 2) *Purpose of the Bill.* This is a transparency and oversight measure to ensure that the CPUC, ratepayer advocates, and the public have better and more timely information about planned gas distribution infrastructure investments as California transitions away from natural gas. The bill does two things: it requires gas corporations to submit annual reports on the status, cost, and projected completion of gas distribution infrastructure projects, including changes in assumptions and stranded asset risk; and it directs the CPUC to consider electrification and non-pipeline alternatives before authorizing cost recovery and to evaluate whether depreciation schedules appropriately reflect projected reductions in gas demand. While the CPUC already receives some of this information through existing mechanisms, proponents argue there is value in a single aggregated annual report focused solely on gas distribution infrastructure. The legislation is motivated by concern that long-term gas planning efforts have not been sufficiently integrated into near-term infrastructure investment decisions, leaving ratepayers exposed to the risk of paying for assets that may no longer be needed.
- 3) *February 2025 Letter from Senators Stern and Allen to the CPUC on Fire Zone Gas Restoration.* In February 2025, the bill's author and Senator Allen wrote to the CPUC requesting information on, among other things, how "the cost of restoring both gas and electric distribution systems in the burn areas [of the January 2025 Southern California fires] compare to the cost of restoring the electric distribution system with adequate capacity to meet all pre-fire gas appliance demand," and whether the CPUC had "assessed these neighborhoods' likely rate of gas consumption once rebuilt." The letter also asked the CPUC to consider whether "repair or reconstruction of the gas distribution network will actually be the most cost-efficient option" before committing ratepayer funds to restoration of a system that "may no longer serve the public convenience or necessity." According to the author's office, the CPUC has not yet responded to the letter, and the author views this bill's transparency and cost recovery requirements as a

step toward ensuring that questions like these are more systematically considered in gas infrastructure investment decisions.

- 4) *Require CPUC Rulemaking to Implement Cost Recovery Considerations.* The bill directs the CPUC to consider electrification and nonpipeline alternatives before authorizing cost recovery for gas distribution infrastructure replacement and upgrade projects, but does not specify how or where that requirement would be implemented, nor does it establish a materiality threshold. Without such a threshold, routine small-scale maintenance and safety projects could be subject to the same cost recovery scrutiny as large capital investments, potentially creating administrative burden without commensurate ratepayer benefit. Establishing a threshold – or authorizing the CPUC to set one – would focus resources on the larger infrastructure investments that pose the greatest stranded asset risk to ratepayers, while preserving gas corporation flexibility to carry out smaller, operationally necessary repairs and upgrades without additional regulatory delay.
Therefore, the Committee recommends amendments to require the CPUC to adopt implementing rules – including a reasonable cost threshold below which the requirement does not apply – in its long-term gas planning rulemaking or a successor proceeding.
- 5) *Safety, Reliability, and Emergency Cost Recovery.* Without an explicit carve-out, the bill's cost recovery considerations could be read to delay or disallow recovery of prudently incurred costs necessary for safety, reliability, legal compliance, or emergency response. *Therefore, the Committee recommends amendments clarifying that nothing in Section 329.1 shall delay or disallow recovery of such costs.*
- 6) *Legislative Findings.* The bill includes a set of legislative findings and declarations that are nonoperative and contain policy assertions that may be difficult to substantiate as a matter of law or fact. *Therefore, the Committee recommends striking Section 2 in its entirety.*
- 7) *Opponents Raise Concerns.* Opponents – spanning gas utilities, business and industry groups, local governments, and renewable gas advocates – raise the following concerns:
 - *Duplication of Existing Regulatory Mechanisms.* Opponents argue that the bill's reporting and cost recovery requirements duplicate frameworks already in place at the CPUC, including the Long-Term Gas Planning Rulemaking, annual RSARs, the RAMP preceding each GRC cycle, individual GRC applications, and GO 177, which already requires nonpipeline alternatives analysis and CPCN review for large gas projects. Opponents contend the bill adds administrative cost – ultimately borne by ratepayers – without providing meaningful oversight benefit beyond what these mechanisms already deliver.
 - *Safety and Reliability of Routine Work.* Opponents argue that the bill's implied project-by-project cost recovery review would disrupt how utilities currently manage field operations. Utilities use pre-authorized program budgets – not project-level approvals – to address aging infrastructure, leaks, and emergency repairs in real time. A structure that requires considering electrification alternatives before authorizing cost recovery risks slowing mandated safety and maintenance work.

- *No Framework After Alternatives Are Identified.* Opponents note that the bill requires the CPUC to consider whether electrification alternatives could avoid gas infrastructure costs, but provides no guidance on what happens next if such an alternative is found to be preferable – no implementation pathway, no cost allocation framework, and no defined authority to act. The result, they argue, is a mandate to evaluate alternatives without the tools to act on the findings.
- *Customer-Funded Commercial and Industrial Projects.* Opponents argue that the bill's expenditure reporting requirements are broad enough to capture gas distribution projects requested and fully funded by commercial or industrial customers, not the general ratepayer pool. Subjecting these projects to additional reporting and cost recovery scrutiny, they contend, creates regulatory uncertainty for business expansion and economic development without corresponding ratepayer benefit.
- *Depreciation Provisions May Increase Near-Term Rates.* Opponents argue that the bill's requirement directing the CPUC to consider depreciation methodologies that minimize stranded asset exposure could be interpreted as a mandate for accelerated depreciation, which would increase gas rates in the near and mid-term.
- *Cost-Shifting to Remaining Gas Customers.* A broad coalition of business, industry and local government groups warns that as customers with the means to electrify do so, the bill's framework could accelerate cost-shifting of system maintenance costs onto remaining gas customers, who are more likely to be low- and middle-income households, renters, small businesses, and manufacturers without viable alternatives. These customers, they argue, would bear a disproportionate share of system costs precisely because they have the fewest options.
- *Hard-to-Electrify Industrial Uses.* Opponents argue the bill's electrification-first framework does not adequately account for energy-intensive industries – including aerospace, food processing, metal fabrication, chemicals, and cement – that rely on natural gas for high-temperature processes for which no commercially viable electric alternative currently exists. They also note that what appears cost-effective for residential or commercial buildings may be wholly impractical in an industrial setting.
- *Renewable Gas and Methane Reduction Goals.* A coalition of bioenergy, renewable hydrogen, and circular economy organizations opposes the bill unless amended, arguing that the bill's electrification-first framework fails to recognize biomethane and renewable hydrogen as decarbonized pipeline fuels. They argue that the bill's focus on electrification alternatives or nonpipeline alternatives could inadvertently chill investment in biomethane supply chains and pipeline interconnections needed to meet the state's mandated 40% methane reduction by 2030. They note that California currently derives approximately 34% of its electricity from fossil gas, meaning electricity is not yet a carbon-neutral alternative in all contexts, while biomethane can be carbon-neutral or carbon-negative.

- *Small Business Protections.* Opponents request amendments to ensure the CPUC's implementing rules specifically analyze impacts on small business gas customers – such as restaurants, bakeries, laundries, and auto shops – that rely on gas for process and equipment needs and cannot readily electrify.

The Committee's recommended amendments address some, but not all, of opponents' key arguments. While the bill does reflect a policy preference for electrification and nonpipeline alternatives, it does not mandate any particular outcome – it requires gas corporations to report specific information about gas distribution infrastructure expenditures, and requires the CPUC to consider electrification and nonpipeline alternatives before authorizing cost recovery and to evaluate whether depreciation schedules reflect projected reductions in gas demand. The CPUC retains discretion to authorize cost recovery and set depreciation schedules as it determines appropriate. Nevertheless, the author may wish to consider additional amendments to address the concerns summarized above.

8) *Related Legislation.*

AB 1849 (Papan) would have required the Air Resources Board, on or before December 31, 2020, to conduct and post on its website an assessment of the amount of decarbonized gaseous fuels needed to decarbonize hard-to-electrify end uses and maintain reliability in the electricity sector. Status: Held under Submission – Assembly Appropriations Committee

AB 2088 (Papan) would have authorized an investor-owned utility to own and operate thermal energy service and would have directed the California Energy Commission and the CPUC to establish the regulatory framework to allow the investor-owned utilities to do so. Status: Held under Submission – Assembly Appropriations Committee

AB 2313 (Berman) requires the CPUC to establish a program in which gas corporations must offer residential customers whose service lines are scheduled for planned replacement the option to, instead, receive a monetary incentive to permanently discontinue gas service and update their home to energy service that does not require gas use. Status: In Committee Process – Senate Energy, Utilities and Communications Committee

9) *Prior Legislation.*

SB 1221 (Min) authorizes 30 pilot projects where cost-effective decarbonization of priority neighborhoods meeting specified criteria can be implemented if the CPUC determines adequate substitute energy is available, among other requirements. Also requires specified mapping of the natural gas utility distribution system and requires the identification of priority decarbonization neighborhood zones, and authorizes gas corporations to cease providing service within the 30 pilot projects, among other provisions. Status: Chapter 602, Statutes of 2024

REGISTERED SUPPORT / OPPOSITION:**Support**

Climate Reality Project San Fernando Valley Chapter

Climate Reality Project, Los Angeles Chapter

Oppose

Abound Food Care

American Gas Association

Antelope Valley Economic Development and Growth Enterprise

Arrowhead United Way

Asians in Energy

Associated Builders and Contractors of California

Association of California Cities - Orange County

Bakersfield Chamber of Commerce

Beverly Hills Chamber of Commerce

Bizfed - Los Angeles County

Bizfed Central Valley

Black Chamber of Orange County

Boys Republic

Brea Chamber of Commerce

Bsd Builders, INC.

Building Industry Association of Southern California

Building Owners & Managers Association - Orange County

Building Owners and Managers Association

Building Owners and Managers Association of California

Building Owners and Managers of Greater Los Angeles

Bynum, INC

C4 USA

California Apartment Association

California Building Industry Association

California Business Properties Association

California Chamber of Commerce

California Contract Cities Association

California Manufacturers and Technology Association

California Metals Coalition

California Restaurant Association

California Steel Industries, INC.

Californians for Property Rights

Central City Association of Los Angeles

Chino Valley Chamber of Commerce

City of Bakersfield

Clean Energy

Coalition of Labor, Agriculture and Business

Colton Chamber of Commerce

Continental Heat Training, INC.

Corona Chamber of Commerce

County of Kings
Dana Point Chamber of Commerce
Dixie Group
Doty Bros Construction Company
Econalliance
Edc Southern California Wine Country
Florence Firestone Merchants Association (FFMA)
Fontana Chamber of Commerce
Garden Grove Chamber of Commerce
Greater Coachella Valley Chamber of Commerce
Greater Conejo Valley Chamber of Commerce
Greater Irvine Chamber of Commerce
Greater Ontario Business Council
Harbor Association of Industry & Commerce
Harrison Industries
Hathaway LLC
Herman Weissker INC
Hollywood Chamber of Commerce
Home Builders Association of Kern County
Huntington Beach Chamber of Commerce
Hw Power INC.
Inland Empire Economic Partnership
Kern Citizens for Energy
Kern County Hispanic Chamber of Commerce
Kern County Taxpayers Association
Lake Elsinore Valley Chamber of Commerce
Los Angeles Area Chamber of Commerce
Los Angeles County Business Federation (BIZ-FED)
Los Angeles County Taxpayers Association
Mca Clay Roof Tile
Menifee Valley Chamber of Commerce
Meruelo Enterprises INC
Moorpark Chamber of Commerce
Moreno Valley Chamber of Commerce
Morro Bay Chamber of Commerce
Mt. San Jacinto College
Mtg
Murrieta Wildomar Chamber of Commerce
National Association of Royalty Owners - California
Orange County Business Council
Orange County Hispanic Chamber of Commerce
Orange County Taxpayers Association
Pacific Gas and Electric Company
Paramount Chamber of Commerce
Pyramid Flowers, INC
Quality Heat Treating, INC.
Redlands Chamber of Commerce
Redondo Beach Chamber of Commerce
San Bernardino County

San Diego Gas and Electric Company
San Gabriel Valley Economic Partnership
Santa Clarita Valley Chamber of Commerce
Sierra Alloys
South Bay Association of Chambers of Commerce
South Orange County Economic Coalition
Southern California Gas Company
Southwest California Legislative Council
Telacu
Temecula Valley Chamber of Commerce
The Arc Los Angeles and Orange Counties
Torrance Area Chamber of Commerce
Tri-j Metal Heat Treating
Tst INC.
Tulare Kings Hispanic Chamber of Commerce
United Way Tulare County
Utility Workers Union of America
Valley Industry & Commerce Association
Valley Metal Treating, INC.
Ventura County Economic Development Association
Ventura County Taxpayers Association
Vista Metals
West Kern Water District
West Ventura County Business Alliance
Wilmington Chamber of Commerce
Wiretech INC.
Young Visionaries Youth Leadership Academy

Oppose Unless Amended

Anaergia
Bio-tronic Energy-ca, LLC
Bioenergy Association of California
California Bioenergy LLC
California Hydrogen Business Council
California Hydrogen Coalition
California Renewable Transportation Alliance
Capitol Business Alliance
Cespira
Cr&r, INC.
Earth Foundries, INC.
Golden State Natural Gas Systems
Mainspring Energy
Monterey One Water
The Transport Project
Tss Consultants
USA Water and Power
Waste Management

Western States Trucking Association
Yosemite Clean Energy

Other

City of Corona

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