Second Regular Session Seventy-second General Assembly STATE OF COLORADO

PREAMENDED

This Unofficial Version Includes Committee Amendments Not Yet Adopted on Second Reading

LLS NO. 20-0999.01 Thomas Morris x4218

SENATE BILL 20-150

SENATE SPONSORSHIP

Hansen,

HOUSE SPONSORSHIP

(None),

Senate Committees

House Committees

Transportation & Energy Appropriations

A BILL FOR AN ACT

101 CONCERNING ADOPTION OF A RENEWABLE NATURAL GAS STANDARD.

Bill Summary

(Note: This summary applies to this bill as introduced and does not reflect any amendments that may be subsequently adopted. If this bill passes third reading in the house of introduction, a bill summary that applies to the reengrossed version of this bill will be available at http://leg.colorado.gov.)

The bill requires the public utilities commission to adopt by rule, no later than July 31, 2021, renewable natural gas programs for large natural gas utilities (those that have at least 200,000 customer accounts in Colorado) and small natural gas utilities (those that have fewer than 200,000 customer accounts in Colorado). The rules must include reporting requirements and a process for natural gas utilities to fully recover prudently incurred costs associated with the large and small renewable natural gas programs.

"Renewable natural gas" is defined to mean any of the following products processed to meet pipeline quality standards or transportation fuel-grade requirements:

- ! Biogas that is blended with, or substituted for, geologic natural gas;
- ! Hydrogen gas derived from renewable energy sources; or
- ! Methane gas derived from any combination of biogas; hydrogen gas or carbon oxides derived from renewable energy sources; waste carbon dioxide; coalbed methane resulting from human activity; naturally occurring coalbed deposits; a municipal solid waste landfill; waste tire or municipal solid waste pyrolysis; or biogas recovery from manure management systems and anaerobic digesters.

If a large natural gas utility's total incremental annual cost to meet the targets of the large renewable natural gas program exceeds 5% of the large natural gas utility's total revenue requirement for a particular year, the large natural gas utility shall not make additional qualified investments under the large renewable natural gas program for that year without approval from the commission. The bill establishes the following portfolio targets for the percentage of gas purchased by large natural gas utilities that is renewable natural gas:

- ! By January 1, 2025, at least 5% must be renewable natural gas;
- ! By January 1, 2030, at least 10% must be renewable natural gas; and
- ! On and after January 1, 2035, at least 15% must be renewable natural gas.

Small natural gas utilities may opt in to the small renewable natural gas program as established by the commission by rule. The rule must include a rate cap limiting the small natural gas utility's costs of procuring renewable natural gas from third parties and qualified investments in renewable natural gas infrastructure.

- Be it enacted by the General Assembly of the State of Colorado:
- 2 **SECTION 1.** In Colorado Revised Statutes, **add** 40-2-124.5 as
- 3 follows:

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- 4 40-2-124.5. Renewable natural gas resource standard -
- 5 legislative declaration definitions rules. (1) THE GENERAL
- 6 ASSEMBLY HEREBY:
 - (a) FINDS THAT RENEWABLE NATURAL GAS PROVIDES BENEFITS TO

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1	NATURAL GAS UTILITY CUSTOMERS AND TO THE PUBLIC;
2	(b) DETERMINES THAT THE DEVELOPMENT OF RENEWABLE
3	NATURAL GAS RESOURCES SHOULD BE ENCOURAGED TO SUPPORT A
4	SMOOTH TRANSITION TO A LOW-CARBON ENERGY ECONOMY IN COLORADO;
5	AND
6	(c) DECLARES THAT:
7	(I) NATURAL GAS UTILITIES CAN REDUCE EMISSIONS FROM THE
8	DIRECT USE OF NATURAL GAS BY PROCURING RENEWABLE NATURAL GAS
9	AND INVESTING IN RENEWABLE NATURAL GAS INFRASTRUCTURE;
10	(II) REGULATORY GUIDELINES FOR THE PROCUREMENT OF
11	RENEWABLE NATURAL GAS AND INVESTMENTS IN RENEWABLE NATURAL
12	GAS INFRASTRUCTURE SHOULD FACILITATE THESE PROCUREMENTS AND
13	INVESTMENTS WHILE ALSO PROTECTING COLORADO CONSUMERS; AND
14	(III) RENEWABLE NATURAL GAS SHOULD BE INCLUDED IN THE
15	BROADER SET OF LOW-CARBON RESOURCES THAT MAY LEVERAGE AND
16	DECARBONIZE THE EXISTING NATURAL GAS SYSTEM TO REDUCE
17	GREENHOUSE GAS EMISSIONS.
18	(2) AS USED IN THIS SECTION:
19	(a) "AUTOMATIC ADJUSTMENT CLAUSE" MEANS AN ANNUAL
20	MECHANISM THAT ALLOWS FOR RECOVERY OF INVESTMENT ON AN
21	UNLAGGED BASIS WITH A FORWARD-LOOKING REVENUE REQUIREMENT
22	CALCULATION WITH A TRUE-UP PROCESS.
23	(b) "Biogas" means a mixture of carbon dioxide and
24	HYDROCARBONS, PRIMARILY METHANE GAS, RELEASED FROM THE
25	BIOLOGICAL DECOMPOSITION OF ORGANIC MATERIALS.
26	_
27	(c) "LARGE NATURAL GAS UTILITY" MEANS A NATURAL GAS

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1	UTILITY WITH TWO HUNDRED $\underline{\text{FIFTY}}$ THOUSAND OR MORE CUSTOMER
2	ACCOUNTS IN COLORADO.
3	(d) "NATURAL GAS UTILITY" MEANS A PUBLIC UTILITY PROVIDING
4	NATURAL GAS SERVICE TO CUSTOMERS; EXCEPT THAT THE TERM DOES NOT
5	INCLUDE A MUNICIPALLY OWNED NATURAL GAS UTILITY.
6	(e) (I) "QUALIFIED INVESTMENT" MEANS ANY CAPITAL
7	INVESTMENT IN RENEWABLE NATURAL GAS INFRASTRUCTURE INCURRED
8	BY A NATURAL GAS UTILITY FOR THE PURPOSE OF PROVIDING NATURAL
9	GAS SERVICE UNDER A RENEWABLE NATURAL GAS PROGRAM DESCRIBED
10	IN SUBSECTION (4) OR (5) OF THIS SECTION.
11	(II) "QUALIFIED INVESTMENT" DOES NOT INCLUDE AN INVESTMENT
12	IN A BIOGAS PRODUCTION PROJECT BY:
13	(A) A SINGLE LIVESTOCK OPERATION THAT PRODUCES MORE THAN
14	TWO HUNDRED FIFTY STANDARD CUBIC FEET OF BIOGAS PER MINUTE; OR
15	(B) A SINGLE BIOGAS SOURCE THAT PRODUCES MORE THAN ONE
16	THOUSAND STANDARD CUBIC FEET OF BIOGAS PER MINUTE.
17	(f) "RENEWABLE ENERGY SOURCES" MEANS:
18	(I) RENEWABLE ENERGY RESOURCES, AS DEFINED IN SECTION
19	40-2-124 (1)(a)(VII); AND
20	(II) BIOGAS.
21	(g) "RENEWABLE NATURAL GAS" MEANS ANY OF THE FOLLOWING
22	PRODUCTS <u>THAT ARE</u> PROCESSED TO MEET PIPELINE QUALITY STANDARDS
23	TRANSPORTATION FUEL-GRADE <u>REQUIREMENTS OR ARE DELIVERED BY</u>
24	AN ALTERNATIVE ENERGY CARRIER:
25	(I) BIOGAS THAT IS BLENDED WITH, OR SUBSTITUTED FOR,
26	GEOLOGIC NATURAL GAS;
27	(II) HYDROGEN GAS DERIVED FROM RENEWABLE ENERGY

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1	SOURCES, OR
2	(III) METHANE GAS DERIVED FROM ANY COMBINATION OF:
3	(A) BIOGAS;
4	(B) HYDROGEN GAS OR CARBON OXIDES DERIVED FROM
5	RENEWABLE ENERGY SOURCES;
6	(C) WASTE CARBON DIOXIDE;
7	(D) COALBED METHANE RESULTING FROM HUMAN ACTIVITY;
8	(E) NATURALLY OCCURRING COALBED DEPOSITS;
9	(F) A MUNICIPAL SOLID WASTE LANDFILL;
10	(G) WASTE TIRE OR MUNICIPAL SOLID WASTE PYROLYSIS;
11	(H) BIOGAS RECOVERY FROM MANURE MANAGEMENT SYSTEMS
12	AND ANAEROBIC <u>DIGESTERS</u> ; <u>OR</u>
13	(I) THE DECOMPOSITION OF ORGANIC FOOD WASTE.
14	(h) "RENEWABLE NATURAL GAS INFRASTRUCTURE" MEANS ALL
15	EQUIPMENT AND FACILITIES FOR THE PRODUCTION, PROCESSING, PIPELINE
16	INTERCONNECTION, AND DISTRIBUTION OF RENEWABLE NATURAL GAS TO
17	BE FURNISHED TO COLORADO CUSTOMERS.
18	(i) "SMALL NATURAL GAS UTILITY" MEANS A NATURAL GAS
19	UTILITY WITH FEWER THAN TWO HUNDRED $\underline{\text{FIFTY}}$ THOUSAND CUSTOMER
20	ACCOUNTS IN COLORADO.
21	(3) (a) THE COMMISSION SHALL ADOPT BY RULE:
22	(I) A LARGE RENEWABLE NATURAL GAS PROGRAM FOR LARGE
23	NATURAL GAS UTILITIES PURSUANT TO SUBSECTION (4) OF THIS SECTION;
24	AND
25	(II) A SMALL RENEWABLE NATURAL GAS PROGRAM FOR SMALL
26	NATURAL GAS UTILITIES PURSUANT TO SUBSECTION (5) OF THIS SECTION.
27	(b) RULES ADOPTED BY THE COMMISSION UNDER THIS SECTION

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1	MUST INCLUDE:
2	(I) REPORTING REQUIREMENTS UNDER THE LARGE RENEWABLE
3	NATURAL GAS PROGRAM AND THE SMALL RENEWABLE NATURAL GAS
4	<u>PROGRAM;</u>
5	(II) MODIFYING THE COMMISSION'S RULES FOR GAS COST
6	ADJUSTMENT AND PRUDENCE REVIEW TO:
7	(A) ALLOW RENEWABLE NATURAL GAS PURCHASES TO BE
8	<u>INCLUDED IN A GAS COST ADJUSTMENT;</u>
9	(B) Create a prudence review standard for renewable
10	NATURAL GAS PURCHASES THAT WILL PROVIDE ASSURANCE THAT
11	RENEWABLE NATURAL GAS PURCHASES WILL BE RECOVERABLE UNDER THE
12	GAS COST ADJUSTMENT; AND
13	(C) REFLECT RENEWABLE NATURAL GAS CREDITS RECEIVED BY A
14	NATURAL GAS UTILITY AS A CREDIT AGAINST COSTS INCLUDED IN THAT
15	UTILITY'S GAS COST ADJUSTMENT; AND
16	(III) ESTABLISHING A PROCESS FOR NATURAL GAS UTILITIES TO
17	FULLY RECOVER PRUDENTLY INCURRED COSTS ASSOCIATED WITH THE
18	LARGE RENEWABLE NATURAL GAS PROGRAM AND THE SMALL RENEWABLE
19	NATURAL GAS PROGRAM.
20	(c) RULES ADOPTED BY THE COMMISSION UNDER THIS SUBSECTION
21	(3) MUST NOT PROHIBIT AN AFFILIATED INTEREST OF A LARGE NATURAL
22	GAS UTILITY OR OF A SMALL NATURAL GAS UTILITY FROM MAKING A
23	CAPITAL INVESTMENT IN A <u>RENEWABLE NATURAL GAS</u> PRODUCTION
24	PROJECT IF THE AFFILIATED INTEREST IS NOT A PUBLIC UTILITY.
25	(4) (a) A Large natural gas utility that participates in the
26	LARGE RENEWABLE NATURAL GAS PROGRAM ADOPTED BY RULE BY THE
27	COMMISSION PURSUANT TO SUBSECTION (3)(a)(I) OF THIS SECTION MAY

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1	MAKE QUALIFIED INVESTMENTS AND PROCURE RENEWABLE NATURAL GAS
2	FROM THIRD PARTIES TO MEET THE FOLLOWING PORTFOLIO TARGETS FOR
3	THE PERCENTAGE OF GAS PURCHASED BY THE LARGE NATURAL GAS
4	UTILITY FOR DISTRIBUTION TO RETAIL NATURAL GAS CUSTOMERS IN
5	COLORADO THAT IS RENEWABLE NATURAL GAS AND TO GENERATE
6	ELECTRICITY USING RENEWABLE NATURAL GAS FOR SALE OF ELECTRICITY
7	TO RETAIL ELECTRICITY CUSTOMERS:
8	(I) By January 1, 2025, at least five percent must be
9	RENEWABLE NATURAL GAS;
10	(II) By January 1, 2030, at least ten percent must be
11	RENEWABLE NATURAL GAS; AND
12	(III) On and after January 1, 2035, at least fifteen percent
13	MUST BE RENEWABLE NATURAL GAS.
14	(b) THE COMMISSION SHALL ADOPT RATE-MAKING MECHANISMS
15	THAT ENSURE THE RECOVERY OF ALL PRUDENTLY INCURRED COSTS THAT
16	CONTRIBUTE TO THE LARGE NATURAL GAS UTILITY'S MEETING THE
17	TARGETS SET FORTH IN SUBSECTION (4)(a) OF THIS SECTION. PURSUANT TO
18	THE RATE-MAKING MECHANISMS ADOPTED UNDER THIS SUBSECTION
19	(4)(b):
20	(I) QUALIFIED INVESTMENTS AND OPERATING COSTS ASSOCIATED
21	WITH QUALIFIED INVESTMENTS THAT CONTRIBUTE TO THE LARGE NATURAL
22	GAS UTILITY MEETING THE TARGETS SET FORTH IN SUBSECTION (4)(a) OF
23	THIS SECTION MAY BE RECOVERED BY MEANS OF AN AUTOMATIC
24	ADJUSTMENT CLAUSE; AND
25	(II) COSTS OF PROCURING RENEWABLE NATURAL GAS FROM THIRD
26	PARTIES THAT CONTRIBUTE TO THE LARGE NATURAL GAS UTILITY MEETING
27	THE TARGETS SET FORTH IN SUBSECTION (4)(a) OF THIS SECTION MAY BE

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1	RECOVERED BY MEANS OF AN AUTOMATIC ADJUSTMENT CLAUSE OR
2	ANOTHER RECOVERY MECHANISM AUTHORIZED BY RULE.
3	(c) When a large natural gas utility makes a qualified
4	INVESTMENT IN THE PRODUCTION OF RENEWABLE NATURAL GAS, THE
5	COSTS ASSOCIATED WITH THE QUALIFIED INVESTMENT INCLUDE THE COST
6	OF CAPITAL ESTABLISHED BY THE COMMISSION IN THE LARGE NATURAL
7	GAS UTILITY'S MOST RECENT GENERAL RATE CASE.
8	(d) Before making a qualified investment in biogas
9	PRODUCTION THAT IS UPSTREAM OF CONDITIONING EQUIPMENT, PIPELINE
10	INTERCONNECTION, GAS CLEANING, OR ELECTRICITY GENERATION FROM
11	RENEWABLE NATURAL GAS, A LARGE NATURAL GAS UTILITY SHALL
12	ENGAGE IN A COMPETITIVE BIDDING PROCESS.
13	(e) IF THE LARGE NATURAL GAS UTILITY'S TOTAL INCREMENTAL
14	ANNUAL COST TO MEET THE TARGETS OF THE LARGE RENEWABLE NATURAL
15	GAS PROGRAM EXCEEDS $\underline{\text{TWO}}$ PERCENT OF THE LARGE NATURAL GAS
16	UTILITY'S TOTAL REVENUE REQUIREMENT FOR A PARTICULAR YEAR, THE
17	LARGE NATURAL GAS UTILITY SHALL NOT MAKE ADDITIONAL QUALIFIED
18	INVESTMENTS UNDER THE LARGE RENEWABLE NATURAL GAS PROGRAM
19	FOR THAT YEAR WITHOUT APPROVAL FROM THE COMMISSION.
20	(f) THE TOTAL INCREMENTAL ANNUAL COST TO MEET THE TARGETS
21	OF THE LARGE RENEWABLE NATURAL GAS PROGRAM MUST ACCOUNT FOR:
22	(I) ANY VALUE RECEIVED BY A LARGE NATURAL GAS UTILITY UPON
23	RESALE OF RENEWABLE NATURAL GAS, INCLUDING ANY ENVIRONMENTAL
24	CREDITS THAT THE RENEWABLE NATURAL GAS PRODUCER CHOOSES TO
25	INCLUDE WITH THE SALE OF THE RENEWABLE NATURAL GAS TO THE LARGE
26	NATURAL GAS UTILITY; AND
27	(II) ANY SAVINGS ACHIEVED THROUGH AVOIDANCE OF

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1	CONVENTIONAL GAS PURCHASES OR DEVELOPMENT, SUCH AS AVOIDED
2	PIPELINE COSTS OR CARBON COSTS.
3	(5) (a) Upon a filing by a small natural gas utility to
4	PARTICIPATE IN THE SMALL RENEWABLE NATURAL GAS PROGRAM ADOPTED
5	BY RULE BY THE COMMISSION UNDER SUBSECTION (3)(a)(II) OF THIS
6	SECTION, THE COMMISSION SHALL ESTABLISH A RATE CAP LIMITING THE
7	SMALL NATURAL GAS UTILITY'S COSTS OF PROCURING RENEWABLE
8	NATURAL GAS FROM THIRD PARTIES AND QUALIFIED INVESTMENTS IN
9	RENEWABLE NATURAL GAS INFRASTRUCTURE. THE RATE CAP MUST BE
10	EXPRESSED AS A PERCENTAGE OF THE SMALL NATURAL GAS UTILITY'S
11	TOTAL REVENUE REQUIREMENT AS APPROVED BY THE COMMISSION IN THE
12	SMALL NATURAL GAS UTILITY'S MOST RECENT GENERAL RATE CASE. FOR
13	THE PURPOSE OF ESTABLISHING A RATE CAP UNDER THIS SUBSECTION
14	(5)(a), THE COMMISSION SHALL ACCOUNT FOR:
15	(I) ANY VALUE RECEIVED BY THE SMALL NATURAL GAS UTILITY
16	UPON RESALE OF RENEWABLE NATURAL GAS, INCLUDING ANY
17	ENVIRONMENTAL CREDITS THAT THE RENEWABLE NATURAL GAS
18	PRODUCER CHOOSES TO INCLUDE WITH THE SALE OF RENEWABLE NATURAL
19	GAS TO THE SMALL NATURAL GAS UTILITY; AND
20	(II) ANY SAVINGS ACHIEVED THROUGH AVOIDANCE OF
21	CONVENTIONAL GAS PURCHASES OR DEVELOPMENT, SUCH AS AVOIDED
22	PIPELINE COSTS OR CARBON COSTS.
23	(b) (I) A FILING BY A SMALL NATURAL GAS UTILITY UNDER
24	SUBSECTION (5)(a) OF THIS SECTION MUST INCLUDE, BUT NEED NOT BE
25	LIMITED TO:
26	(A) A PROPOSAL TO PROCURE A TOTAL VOLUME OF RENEWABLE
27	NATURAL GAS OVER A SPECIFIC PERIOD; AND

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1	(B) IDENTIFICATION OF THE QUALIFIED INVESTMENTS THAT THE
2	SMALL NATURAL GAS UTILITY MAY MAKE IN RENEWABLE NATURAL GAS
3	INFRASTRUCTURE.
4	(II) A SMALL NATURAL GAS UTILITY MAY FROM TIME TO TIME
5	REVISE THE FILING SUBMITTED TO THE COMMISSION UNDER THIS
6	SUBSECTION (5).
7	(c) Costs prudently incurred by a small natural gas
8	UTILITY PURSUANT TO A FILING SUBMITTED UNDER THIS SUBSECTION (5)
9	MAY BE RECOVERED EITHER IN THE UTILITY'S RATE BASE OR BY MEANS OF
10	AN AUTOMATIC ADJUSTMENT CLAUSE.
11	(d) WHEN A SMALL NATURAL GAS UTILITY MAKES A QUALIFIED
12	INVESTMENT IN THE PRODUCTION OF RENEWABLE NATURAL GAS, THE
13	COSTS ASSOCIATED WITH THE QUALIFIED INVESTMENT INCLUDE THE COST
14	OF CAPITAL ESTABLISHED BY THE COMMISSION IN THE SMALL NATURAL
15	GAS UTILITY'S MOST RECENT GENERAL RATE CASE.
16	(6) (a) The commission shall adopt rules pursuant to
17	SUBSECTIONS (3) TO (5) OF THIS SECTION NO LATER THAN JULY $31,2021$.
18	(b) The commission's rules must establish a renewable
19	NATURAL GAS TRACKING AND VERIFICATION PROCESS TO PROVIDE LOCAL
20	DISTRIBUTION COMPANY END USERS WITH COMPLIANCE DATA. THE
21	PROCESS MUST ALLOW FOR AN ASSESSMENT OF THE TOTAL AMOUNT OF
22	RENEWABLE NATURAL GAS PRODUCED AND DISTRIBUTED, INCLUDING
23	BOTH:
24	(I) SYSTEM GAS THAT IS CONTRACTED FOR BY A LOCAL
25	DISTRIBUTION COMPANY; AND
26	(II) TRANSPORT GAS THAT IS CONTRACTED FOR BY AN END USER.
27	(c) THE COMMISSION'S RULES MUST ESTABLISH A PROGRAM OF

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1	TRADEABLE RENEWABLE NATURAL GAS ENVIRONMENTAL ATTRIBUTE
2	CREDITS THAT MAY BE USED BY LARGE NATURAL GAS UTILITIES AND
3	SMALL NATURAL GAS UTILITIES FOR THE SOLE PURPOSE OF COMPLYING
4	WITH THIS SECTION. THE COMMISSION SHALL CONSULT WITH THE
5	DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT IN THE DESIGN OF
6	THE CREDIT TRADING PROGRAM. IN NO EVENT SHALL THE COMMISSION
7	ALLOW ANY RENEWABLE NATURAL GAS ENVIRONMENTAL ATTRIBUTE
8	CREDITS GENERATED PURSUANT TO THE CREDIT TRADING PROGRAM TO BE
9	USED FOR ANY PURPOSE OTHER THAN COMPLIANCE WITH THIS SECTION.
10	(7) A MUNICIPALLY OWNED NATURAL GAS UTILITY MAY
11	IMPLEMENT A RENEWABLE NATURAL GAS PROGRAM SIMILAR TO THE
12	PROGRAMS DESCRIBED IN THIS SECTION AND, IF SO, SHALL SUBMIT A
13	STATEMENT TO THE COMMISSION TO DEMONSTRATE THAT THE UTILITY HAS
14	DONE SO. ANY SUCH STATEMENT IS FOR INFORMATIONAL PURPOSES ONLY
15	AND IS NOT SUBJECT TO APPROVAL BY THE COMMISSION.
16	SECTION 2. Act subject to petition - effective date -
17	applicability. (1) This act takes effect at 12:01 a.m. on the day following
18	the expiration of the ninety-day period after final adjournment of the
19	general assembly (August 5, 2020, if adjournment sine die is on May 6,
20	2020); except that, if a referendum petition is filed pursuant to section 1
21	(3) of article V of the state constitution against this act or an item, section,
22	or part of this act within such period, then the act, item, section, or part
23	will not take effect unless approved by the people at the general election
24	to be held in November 2020 and, in such case, will take effect on the
25	date of the official declaration of the vote thereon by the governor.
26	(2) This act applies to conduct occurring on or after the applicable
27	effective date of this act.

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