
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1359 (Stern) - Gas Transition Responsibility and Electrification Act

Version: April 13, 2026

Urgency: No

Hearing Date: May 4, 2026

Policy Vote: E., U. & C. 10 - 4

Mandate: Yes

Consultant: Ashley Ames

Bill Summary: This bill would implement policies to transition away from the natural gas utility system, including requiring the natural gas corporation's obligation to furnish service to be interpreted consistent with the state's greenhouse gas (GHG) emission reduction mandates and policies promoting building electrification, and requiring the California Public Utilities Commission (CPUC) before approving a capital investments of over \$10 million of natural gas corporation infrastructure to require to make specified findings.

Fiscal Impact:

- The CPUC estimates ongoing costs of about \$681,000 annually (ratepayer funds) to develop and implement a statewide natural gas transition framework, open a rulemaking, evaluate and restrict gas distribution infrastructure investments in every general rate case cycle, oversee new reporting and decommissioning trusts, and modify ratemaking practices to limit recovery of certain gas-related costs.
- To the extent that this bill impacts energy rates, it could result in costs or savings to the state as an energy utility ratepayer. The State of California is a natural gas and electricity customer, purchasing roughly four percent of the state's natural gas and one percent of its electricity. As such, the state incurs costs when rates increase, and realizes cost savings if rates go down (various funds).

Background: Methane is the primary component of natural gas and is also produced biologically under anaerobic conditions in animals with a four-part stomach (such as cattle and sheep), landfills, and waste handling. Atmospheric methane concentrations have been increasing as a result of human activities related to agriculture, fossil fuel extraction and distribution, and waste generation and processing. Methane is a short-lived climate pollutant with an atmospheric lifetime of about 12 years. Like other GHGs, methane warms the atmosphere by blocking infrared radiation (heat) that is re-emitted from the earth's surface from reaching space. Methane is a potent GHG, with roughly 28 times the warming power of carbon dioxide over a 100-year period and more than 80 times over a 20-year timespan. Methane also affects local air quality by contributing to the formation of global background levels of ozone. Ozone itself is a powerful short-lived climate pollutant as well as a regional ground level air pollutant (a.k.a. smog) which negatively impacts human health and can lead to asthma attacks, hospitalizations, and even premature death.

Local rules to limit or ban gas use. In 2019, the City of Berkeley adopted the nation's first ban of natural gas hookups in most new residences and commercial buildings. Since then, about 50 other California cities and counties have adopted reach codes

(those that surpass state building standards) or ordinances that either limit or ban the installation of gas connections to new buildings. Additionally, the Bay Area Air Quality Management District adopted rules prohibiting installation of natural gas furnaces and water heaters in residential and commercial settings beginning in 2027. In April 2023, a federal court overturned the 2019 City of Berkeley's ban on natural gas hookups for new residences and commercial buildings. The California Restaurant Association filed suit against the City of Berkeley months after the city adopted the ban. A lower district court upheld the ban in 2021, however, the 9th U.S. Circuit Court of Appeals found the ban to be in direct violation of the Energy Policy and Conservation Act of 1975 (EPCA) (*California Restaurant Association v. City of Berkeley (United States Court of Appeals, 9th Cir. 2023)*). The three-judge panel held that "the Energy Policy and Conservation Act 42 U.S.C. §6297(c), expressly preempts state and local regulations concerning the energy use of many natural gas appliances, including those used in household and restaurant kitchens. Instead of directly banning those appliances in new buildings, Berkeley took a more circuitous route to the same result." The court ruled that the EPCA preempts the Berkeley ordinance. A federal appeals court declined to rehear the earlier court decision striking down the City's ordinance.

SB 1221 (Min, Chapter 602, Statutes of 2022) limited pilot projects within gas utility service territory. Given the limited, if non-existent, understanding of real-world impacts to Californians of wide-spread decommissioning of the natural gas utility system, SB 1221 authorizes up to 30 targeted pilot projects to provide learnings and greater understanding of the challenges to transition away from the natural gas utility system to electrification at the neighborhood level. The pilot projects would be voluntary to natural gas utilities, require consent from a super-majority of affected customers (66.66%), and require the projects to be more cost-effective for ratepayers as compared to proposed upgrades needed on the natural gas system. SB 1221 also ensured that where a pilot project is implemented, the natural gas corporation can cease providing service with no continued obligation to serve, thereby protecting ratepayers from having to rebuild the system in the future. The CPUC has recently adopted maps for priority neighborhoods as required by SB 1221. The agency has required public workshops and is also actively pursuing efforts towards developing pilot projects with stakeholder participation and sensitivity to the challenges that are likely to arise given the big changes for customers.

CPUC proceeding related to long-term natural gas system planning. Even prior to SB 1221, the CPUC was actively considering the issues of zonal decarbonization with concurrent decommissioning as part of the proceeding related to long-term natural gas system planning (R. 20-01-007) where many of the issues related to decommissioning natural gas utility service concurrently with transitioning customers to alternative energy sources, and related issues were being discussed. The CPUC has solicited comments from parties on a staff proposal to establish criteria and prioritize geographic tranches of the gas utility system to identify the most cost-effective areas to decommission, including those where the environmental burdens may be highest, while ensuring protections for remaining utility customers. That proceeding has now migrated to R. 24-09-012, to continue efforts on long-term natural gas system planning, including implementing SB 1221. Separately, Pacific Gas and Electric (PG&E) had submitted an application (A. 22-08-003) to pilot a zonal electrification project at California State University Monterey Bay. The "first-of-its-kind" pilot would convert 391 of 484 services, including some student housing, to all-electric service instead of pursuing certain

pipeline replacement projects planned for the 2022-2025 period. However, PG&E has since decided to no longer pursue this project.

Efforts to address methane emissions. Methane emissions come from both intentional and unintentional releases of natural gas. Unintentional releases of methane, or fugitive emissions, can come from multiple sources and phases of the natural gas system, such as from leaking pipelines, abandoned wells, or inefficient combustion. Intentional releases are purposeful and known emissions that occur in the normal operations of the natural gas system, for example, the need to vent natural gas when pressures reach levels where there could be a safety risk. There are many ongoing regulatory initiatives currently being undertaken by various agencies in the state (mostly relating to air pollution, greenhouse gases, and the increased use of renewable energy sources), to address methane emissions from the natural gas system both directly and indirectly. These include: efforts to reduce short-lived climate pollution, improvements to natural gas pipeline safety requirements largely in response to the 2010 PG&E San Bruno fatal explosion, legislative requirements to address natural gas leaks, emergency regulations to address storage well integrity, and others.

Obligation to serve. The concept of a regulatory compact recognizes a set of mutual rights, obligations, and benefits between utilities and their customers. Utilities are granted exclusive service franchise (service territories), and in exchange accept the responsibility to serve everyone in the territory (obligation to serve everyone willing to pay) and submit to rate-regulation by an economic regulator (a public utilities commission) where the utility has the opportunity to earn a rate of return. A utility's obligation to serve is noted in various statutes and Constitutional provisions, most notably, in Public Utilities Code §451 which requires utilities "to furnish and maintain... adequate, efficient, just, and reasonable service." A number of statutes also provide requirements for how a utility must discontinue service, including provisions related to nonpayment by a customer.

Proposed Law: This bill would:

1. Make several findings and declarations regarding the need to manage the transition of the natural gas utility system and to direct the CPUC to prioritize electrification and nonpipelined alternatives and ensure the orderly retirement of portions of the natural gas system.
2. Require that the obligation of a gas corporation to furnish service under this bill be interpreted consistent with the state's GHG emission reduction mandates and policies promoting building electrification, and authorize the CPUC to authorize the retirement or discontinuation of natural gas distribution infrastructure where the CPUC finds that continued operation is inconsistent with the public interest.
3. Require the CPUC, in determining just and reasonable rates, to ensure that costs associated with avoidable natural gas leakage, including methane emissions resulting from inadequate maintenance or infrastructure replacement delays, are not recovered from ratepayers.

4. Prohibit the CPUC, beginning January 1, 2030, when establishing rates for a gas corporation, from allowing recovery from ratepayers for the value of natural gas lost to the atmosphere from facilities under the control of the gas corporation.
5. Require the CPUC, before approving any capital investment by a gas corporation for natural gas distribution infrastructure exceeding \$10 million, to determine that the proposed investment is consistent with the state's GHG emission reduction targets, and requires a gas corporation seeking approval of an investment to provide evidence regarding specified factors.
6. Require the CPUC to develop a framework for the orderly and equitable transition of the natural gas distribution system, as provided.
7. Require each gas corporation to establish a Gas Infrastructure Decommissioning Trust, requires the trust to be funded through shareholder contributions, and prohibits contributions to the trust from being recovered from ratepayers.
8. Require each gas corporation, beginning January 1, 2030, to annually file with the CPUC a transition report, including long-term natural gas demand forecasts.
9. Prohibit a gas corporation, beginning January 1, 2030, from extending new natural gas service to residential or mixed-use developments unless the applicant pays the full cost of the extension, including all costs that would otherwise be borne by existing ratepayers.
10. Require the CPUC to initiate a rulemaking to implement this bill's provisions on or before July 1, 2029.

Related Legislation:

AB 2313 (Berman) of 2026, would require the CPUC to require each gas corporation to offer a Gas Distribution Service Line Replacement Alternatives Program, on or before January 1, 2028.

SB 1221 (Min, Chapter 602, Statutes of 2024) authorized 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. The bill also required specified mapping of the natural gas utility distribution system and requires the identification of priority decarbonization neighborhood zones, authorizes gas corporations to cease providing service within the 30 pilot projects, among other provisions.

SB 527 (Min) of 2023, would have required the CPUC, in consultation with gas corporations, to develop and supervise the administration of the Neighborhood Decarbonization Program to cease providing gas utility service in an area within its service territory if the CPUC determines that adequate substitute energy service is reasonably available to support the energy end use of affected gas customers. The bill was held on Suspense in this committee.

SB 1441 (Leno) of 2016, would have prohibited, to the extent feasible, the CPUC from allowing gas corporations to seek or receive cost recovery from ratepayers for the value of natural gas lost to the atmosphere from certain natural gas facilities when establishing rates in an individual rulemaking proceeding or in general rate cases. The bill failed passage on the Assembly Floor.

SB 1371 (Leno, Chapter 525, Statutes of 2014) required the CPUC to open a proceeding to adopt rules and procedures that minimize natural gas leaks from natural gas corporation's pipeline facilities, with the goal of reducing GHG emissions.

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