

Second Regular Session
Seventy-second General Assembly
STATE OF COLORADO

INTRODUCED

LLS NO. 20-0202.01 Thomas Morris x4218

HOUSE BILL 20-1018

HOUSE SPONSORSHIP

Hansen,

SENATE SPONSORSHIP

(None),

House Committees
Energy & Environment

Senate Committees

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.

Shading denotes HOUSE amendment. Double underlining denotes SENATE amendment.
Capital letters or bold & italic numbers indicate new material to be added to existing statute.
Dashes through the words indicate deletions from existing statute.

"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.

1 *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:

4 **40-2-124.5. Renewable natural gas resource standard -**
5 **legislative declaration - definitions - rules.** (1) THE GENERAL
6 ASSEMBLY HEREBY:

7 (a) FINDS THAT RENEWABLE NATURAL GAS PROVIDES BENEFITS TO

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) "BIOGAS" MEANS A MIXTURE OF CARBON DIOXIDE AND
20 HYDROCARBONS, PRIMARILY METHANE GAS, RELEASED FROM THE
21 BIOLOGICAL DECOMPOSITION OF ORGANIC MATERIALS.

22 (b) "BIOMASS" HAS THE MEANING ESTABLISHED IN SECTION
23 40-2-124 (1)(a)(I).

24 (c) "LARGE NATURAL GAS UTILITY" MEANS A NATURAL GAS
25 UTILITY WITH TWO HUNDRED THOUSAND OR MORE CUSTOMER ACCOUNTS
26 IN COLORADO.

27 (d) "NATURAL GAS UTILITY" MEANS A PUBLIC UTILITY PROVIDING

1 NATURAL GAS SERVICE TO CUSTOMERS.

2 (e) (I) "QUALIFIED INVESTMENT" MEANS ANY CAPITAL
3 INVESTMENT IN RENEWABLE NATURAL GAS INFRASTRUCTURE INCURRED
4 BY A NATURAL GAS UTILITY FOR THE PURPOSE OF PROVIDING NATURAL
5 GAS SERVICE UNDER A RENEWABLE NATURAL GAS PROGRAM DESCRIBED
6 IN SUBSECTION (4) OR (5) OF THIS SECTION.

7 (II) "QUALIFIED INVESTMENT" DOES NOT INCLUDE AN INVESTMENT
8 IN A BIOGAS PRODUCTION PROJECT BY:

9 (A) A SINGLE LIVESTOCK OPERATION THAT PRODUCES MORE THAN
10 TWO HUNDRED FIFTY STANDARD CUBIC FEET OF BIOGAS PER MINUTE; OR

11 (B) A SINGLE BIOGAS SOURCE THAT PRODUCES MORE THAN ONE
12 THOUSAND STANDARD CUBIC FEET OF BIOGAS PER MINUTE.

13 (f) "RENEWABLE ENERGY SOURCES" MEANS:

14 (I) RENEWABLE ENERGY RESOURCES, AS DEFINED IN SECTION
15 40-2-124 (1)(a)(VII); AND

16 (II) BIOGAS.

17 (g) "RENEWABLE NATURAL GAS" MEANS ANY OF THE FOLLOWING
18 PRODUCTS PROCESSED TO MEET PIPELINE QUALITY STANDARDS OR
19 TRANSPORTATION FUEL-GRADE REQUIREMENTS:

20 (I) BIOGAS THAT IS BLENDED WITH, OR SUBSTITUTED FOR,
21 GEOLOGIC NATURAL GAS;

22 (II) HYDROGEN GAS DERIVED FROM RENEWABLE ENERGY
23 SOURCES; OR

24 (III) METHANE GAS DERIVED FROM ANY COMBINATION OF:

25 (A) BIOGAS;

26 (B) HYDROGEN GAS OR CARBON OXIDES DERIVED FROM
27 RENEWABLE ENERGY SOURCES;

- 1 (C) WASTE CARBON DIOXIDE;
- 2 (D) COALBED METHANE RESULTING FROM HUMAN ACTIVITY;
- 3 (E) NATURALLY OCCURRING COALBED DEPOSITS;
- 4 (F) A MUNICIPAL SOLID WASTE LANDFILL;
- 5 (G) WASTE TIRE OR MUNICIPAL SOLID WASTE PYROLYSIS; OR
- 6 (H) BIOGAS RECOVERY FROM MANURE MANAGEMENT SYSTEMS
- 7 AND ANAEROBIC DIGESTERS.

8 (h) "RENEWABLE NATURAL GAS INFRASTRUCTURE" MEANS ALL
9 EQUIPMENT AND FACILITIES FOR THE PRODUCTION, PROCESSING, PIPELINE
10 INTERCONNECTION, AND DISTRIBUTION OF RENEWABLE NATURAL GAS TO
11 BE FURNISHED TO COLORADO CUSTOMERS.

12 (i) "SMALL NATURAL GAS UTILITY" MEANS A NATURAL GAS
13 UTILITY WITH FEWER THAN TWO HUNDRED THOUSAND CUSTOMER
14 ACCOUNTS IN COLORADO.

15 (3) (a) THE COMMISSION SHALL ADOPT BY RULE:

16 (I) A LARGE RENEWABLE NATURAL GAS PROGRAM FOR LARGE
17 NATURAL GAS UTILITIES PURSUANT TO SUBSECTION (4) OF THIS SECTION;
18 AND

19 (II) A SMALL RENEWABLE NATURAL GAS PROGRAM FOR SMALL
20 NATURAL GAS UTILITIES PURSUANT TO SUBSECTION (5) OF THIS SECTION.

21 (b) RULES ADOPTED BY THE COMMISSION UNDER THIS SECTION
22 MUST INCLUDE:

23 (I) REPORTING REQUIREMENTS UNDER THE LARGE RENEWABLE
24 NATURAL GAS PROGRAM AND THE SMALL RENEWABLE NATURAL GAS
25 PROGRAM; AND

26 (II) ESTABLISHING A PROCESS FOR NATURAL GAS UTILITIES TO
27 FULLY RECOVER PRUDENTLY INCURRED COSTS ASSOCIATED WITH THE

1 LARGE RENEWABLE NATURAL GAS PROGRAM AND THE SMALL RENEWABLE
2 NATURAL GAS PROGRAM.

3 (c) RULES ADOPTED BY THE COMMISSION UNDER THIS SUBSECTION
4 (3) MUST NOT PROHIBIT AN AFFILIATED INTEREST OF A LARGE NATURAL
5 GAS UTILITY OR OF A SMALL NATURAL GAS UTILITY FROM MAKING A
6 CAPITAL INVESTMENT IN A BIOGAS PRODUCTION PROJECT IF THE
7 AFFILIATED INTEREST IS NOT A PUBLIC UTILITY.

8 (4) (a) A LARGE NATURAL GAS UTILITY THAT PARTICIPATES IN THE
9 LARGE RENEWABLE NATURAL GAS PROGRAM ADOPTED BY RULE BY THE
10 COMMISSION PURSUANT TO SUBSECTION (3)(a)(I) OF THIS SECTION MAY
11 MAKE QUALIFIED INVESTMENTS AND PROCURE RENEWABLE NATURAL GAS
12 FROM THIRD PARTIES TO MEET THE FOLLOWING PORTFOLIO TARGETS FOR
13 THE PERCENTAGE OF GAS PURCHASED BY THE LARGE NATURAL GAS
14 UTILITY FOR DISTRIBUTION TO RETAIL NATURAL GAS CUSTOMERS IN
15 COLORADO THAT IS RENEWABLE NATURAL GAS:

16 (I) BY JANUARY 1, 2025, AT LEAST FIVE PERCENT MUST BE
17 RENEWABLE NATURAL GAS;

18 (II) BY JANUARY 1, 2030, AT LEAST TEN PERCENT MUST BE
19 RENEWABLE NATURAL GAS; AND

20 (III) ON AND AFTER JANUARY 1, 2035, AT LEAST FIFTEEN PERCENT
21 MUST BE RENEWABLE NATURAL GAS.

22 (b) THE COMMISSION SHALL ADOPT RATE-MAKING MECHANISMS
23 THAT ENSURE THE RECOVERY OF ALL PRUDENTLY INCURRED COSTS THAT
24 CONTRIBUTE TO THE LARGE NATURAL GAS UTILITY'S MEETING THE
25 TARGETS SET FORTH IN SUBSECTION (4)(a) OF THIS SECTION. PURSUANT TO
26 THE RATE-MAKING MECHANISMS ADOPTED UNDER THIS SUBSECTION
27 (4)(b):

1 (I) QUALIFIED INVESTMENTS AND OPERATING COSTS ASSOCIATED
2 WITH QUALIFIED INVESTMENTS THAT CONTRIBUTE TO THE LARGE NATURAL
3 GAS UTILITY MEETING THE TARGETS SET FORTH IN SUBSECTION (4)(a) OF
4 THIS SECTION MAY BE RECOVERED BY MEANS OF AN AUTOMATIC
5 ADJUSTMENT CLAUSE.

6 (II) COSTS OF PROCURING RENEWABLE NATURAL GAS FROM THIRD
7 PARTIES THAT CONTRIBUTE TO THE LARGE NATURAL GAS UTILITY MEETING
8 THE TARGETS SET FORTH IN SUBSECTION (4)(a) OF THIS SECTION MAY BE
9 RECOVERED BY MEANS OF AN AUTOMATIC ADJUSTMENT CLAUSE OR
10 ANOTHER RECOVERY MECHANISM AUTHORIZED BY RULE.

11 (c) WHEN A LARGE 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 LARGE NATURAL
15 GAS UTILITY'S MOST RECENT GENERAL RATE CASE.

16 (d) BEFORE MAKING A QUALIFIED INVESTMENT IN BIOGAS
17 PRODUCTION THAT IS UPSTREAM OF CONDITIONING EQUIPMENT, PIPELINE
18 INTERCONNECTION, OR GAS CLEANING, A LARGE NATURAL GAS UTILITY
19 SHALL ENGAGE IN A COMPETITIVE BIDDING PROCESS.

20 (e) IF THE LARGE NATURAL GAS UTILITY'S TOTAL INCREMENTAL
21 ANNUAL COST TO MEET THE TARGETS OF THE LARGE RENEWABLE NATURAL
22 GAS PROGRAM EXCEEDS FIVE PERCENT OF THE LARGE NATURAL GAS
23 UTILITY'S TOTAL REVENUE REQUIREMENT FOR A PARTICULAR YEAR, THE
24 LARGE NATURAL GAS UTILITY SHALL NOT MAKE ADDITIONAL QUALIFIED
25 INVESTMENTS UNDER THE LARGE RENEWABLE NATURAL GAS PROGRAM
26 FOR THAT YEAR WITHOUT APPROVAL FROM THE COMMISSION.

27 (f) THE TOTAL INCREMENTAL ANNUAL COST TO MEET THE TARGETS

1 OF THE LARGE RENEWABLE NATURAL GAS PROGRAM MUST ACCOUNT FOR:

2 (I) ANY VALUE RECEIVED BY A LARGE NATURAL GAS UTILITY UPON
3 RESALE OF RENEWABLE NATURAL GAS, INCLUDING ANY ENVIRONMENTAL
4 CREDITS THAT THE RENEWABLE NATURAL GAS PRODUCER CHOOSES TO
5 INCLUDE WITH THE SALE OF THE RENEWABLE NATURAL GAS TO THE LARGE
6 NATURAL GAS UTILITY; AND

7 (II) ANY SAVINGS ACHIEVED THROUGH AVOIDANCE OF
8 CONVENTIONAL GAS PURCHASES OR DEVELOPMENT, SUCH AS AVOIDED
9 PIPELINE COSTS OR CARBON COSTS.

10 (5) (a) UPON A FILING BY A SMALL NATURAL GAS UTILITY TO
11 PARTICIPATE IN THE SMALL RENEWABLE NATURAL GAS PROGRAM ADOPTED
12 BY RULE BY THE COMMISSION UNDER SUBSECTION (3)(a)(II) OF THIS
13 SECTION, THE COMMISSION SHALL ESTABLISH A RATE CAP LIMITING THE
14 SMALL NATURAL GAS UTILITY'S COSTS OF PROCURING RENEWABLE
15 NATURAL GAS FROM THIRD PARTIES AND QUALIFIED INVESTMENTS IN
16 RENEWABLE NATURAL GAS INFRASTRUCTURE. THE RATE CAP MUST BE
17 EXPRESSED AS A PERCENTAGE OF THE SMALL NATURAL GAS UTILITY'S
18 TOTAL REVENUE REQUIREMENT AS APPROVED BY THE COMMISSION IN THE
19 SMALL NATURAL GAS UTILITY'S MOST RECENT GENERAL RATE CASE. FOR
20 THE PURPOSE OF ESTABLISHING A RATE CAP UNDER THIS SUBSECTION
21 (5)(a), THE COMMISSION SHALL ACCOUNT FOR:

22 (I) ANY VALUE RECEIVED BY THE SMALL NATURAL GAS UTILITY
23 UPON RESALE OF RENEWABLE NATURAL GAS, INCLUDING ANY
24 ENVIRONMENTAL CREDITS THAT THE RENEWABLE NATURAL GAS
25 PRODUCER CHOOSES TO INCLUDE WITH THE SALE OF RENEWABLE NATURAL
26 GAS TO THE SMALL NATURAL GAS UTILITY; AND

27 (II) ANY SAVINGS ACHIEVED THROUGH AVOIDANCE OF

1 CONVENTIONAL GAS PURCHASES OR DEVELOPMENT, SUCH AS AVOIDED
2 PIPELINE COSTS OR CARBON COSTS.

3 (b) (I) A FILING BY A SMALL NATURAL GAS UTILITY UNDER
4 SUBSECTION (5)(a) OF THIS SECTION MUST INCLUDE, BUT NEED NOT BE
5 LIMITED TO:

6 (A) A PROPOSAL TO PROCURE A TOTAL VOLUME OF RENEWABLE
7 NATURAL GAS OVER A SPECIFIC PERIOD; AND

8 (B) IDENTIFICATION OF THE QUALIFIED INVESTMENTS THAT THE
9 SMALL NATURAL GAS UTILITY MAY MAKE IN RENEWABLE NATURAL GAS
10 INFRASTRUCTURE.

11 (II) A SMALL NATURAL GAS UTILITY MAY FROM TIME TO TIME
12 REVISE THE FILING SUBMITTED TO THE COMMISSION UNDER THIS
13 SUBSECTION (5).

14 (c) ANY COSTS PRUDENTLY INCURRED BY A SMALL NATURAL GAS
15 UTILITY PURSUANT TO A FILING SUBMITTED UNDER THIS SUBSECTION (5)
16 MAY BE RECOVERED BY MEANS OF AN AUTOMATIC ADJUSTMENT CLAUSE.

17 (d) WHEN A SMALL NATURAL GAS UTILITY MAKES A QUALIFIED
18 INVESTMENT IN THE PRODUCTION OF RENEWABLE NATURAL GAS, THE
19 COSTS ASSOCIATED WITH THE QUALIFIED INVESTMENT INCLUDE THE COST
20 OF CAPITAL ESTABLISHED BY THE COMMISSION IN THE SMALL NATURAL
21 GAS UTILITY'S MOST RECENT GENERAL RATE CASE.

22 (6) THE COMMISSION SHALL ADOPT RULES PURSUANT TO
23 SUBSECTIONS (3) TO (5) OF THIS SECTION NO LATER THAN JULY 31, 2021.

24 **SECTION 2. Act subject to petition - effective date -**
25 **applicability.** (1) This act takes effect at 12:01 a.m. on the day following
26 the expiration of the ninety-day period after final adjournment of the
27 general assembly (August 5, 2020, if adjournment sine die is on May 6,

1 2020); except that, if a referendum petition is filed pursuant to section 1
2 (3) of article V of the state constitution against this act or an item, section,
3 or part of this act within such period, then the act, item, section, or part
4 will not take effect unless approved by the people at the general election
5 to be held in November 2020 and, in such case, will take effect on the
6 date of the official declaration of the vote thereon by the governor.

7 (2) This act applies to conduct occurring on or after the applicable
8 effective date of this act.