

STATE OF CALIFORNIA

Public Utilities Commission
San Francisco

M e m o r a n d u m

Date: June 8, 2004

To: The Commission
(Meeting of June 9, 2004)

From: Alan LoFaso, Director
Office of Governmental Affairs (OGA) — Sacramento

Subject: **AB 2643 (Canciamilla) Energy; Natural gas**
As Amended June 3, 2004

Legislative Subcommittee Recommendation: Support, if amended.

Summary: This bill Requires the California Energy Resources Conservation and Development Commission (CEC) to prepare, as a component of the 2005 Integrated Energy Policy Report (IEPR), an assessment of the costs and benefits of siting liquefied natural gas (LNG) facilities within the state.

Digest: Existing law, Chapter 568, Statutes of 2002 (SB 1389, Bowen), required the Energy Commission (CEC) to publish a biannual Integrated Resource Policy Report (IRPR).

This bill would require the Energy Commission (CEC) to prepare, as a component of the 2005 IEPR, an assessment of the costs and benefits of siting liquefied natural gas (LNG) facilities within the state.

Analysis: This is a study bill. Although it had appeared for some time that this measure was a “spot bill” (to be amended later with more substantive text), the author has expressed his intent to seek enactment of this bill as a study bill.

Strategic Planning, Energy and Legal Divisions have expressed concerns that this study could have a negative impact on the efforts to site LNG facilities in California.

Specifically, DSP and Energy Division note the following:

- 1) CEC already has the authority to perform this kind of analysis in its IEPR proceeding.

- 2) Most of the decisions regarding the construction of LNG facilities should happen before the 2005 and any analysis regarding these issues will be too late in 2005 IEPR proceeding.
- 3) CPUC has already sent a letter to CEC and has requested CEC to perform a similar analysis. (Please see the attached.)
- 4) The bill does not give any additional authority and is not requiring any new analysis.
- 5) This Bill may be used to delay the LNG review process.
- 6) The Commission and CEC already recognize that LNG could play an important role in providing additional supplies to California, and the Commission is already pressing forward with determining the appropriate guidelines to utilities to provide access to LNG supplies in R.04-01-025,
- 7) It is very likely to be primarily a market decision whether and how many LNG terminals get built (not a regulatory decision), and \
- 8) The Commission already recognizes the importance of safety and environmental issues in determining the proper siting of LNG terminals, so, in some particular cases, safety and environmental considerations would override a generic "cost-benefit" analysis.

California is actively seeking new and diverse energy resources, among them, natural gas supplies. The Commission recently opened a rulemaking (R.04-01-025) to pursue strategies for development of natural gas resources in California, finding:

Notwithstanding the projected increase in natural gas demand in California, recent developments seriously threaten California's supply of natural gas in the long-term ... there is uncertainty over whether California will have enough interstate pipeline capacity rights secured by firm transportation contracts in the future to meet California's long-term needs.... Although it was previously assumed that there were ample proven natural gas reserves in Canada, which would be adequate to meet demand forecasts in Canada and for export to meet a substantial portion of the demand forecast in the United States, this assumption has been thrown into doubt by the most updated analysis of Canadian production of natural gas.

Moreover, the Commission recently initiated an order institution investigation (OII) regarding the efforts of SES to construct an LNG facility at the Port of Long Beach (I. 04-04-024).

On April 27, 2004, the Commission, via Executive Director Ahern, requested that the CEC add 2 additional items to its 2004 IEPR update review:

1. Provide data and analysis necessary to support the Governor in responding to deepwater liquefied natural gas (LNG) facilities' applications.
2. Conduct a statewide transmission corridor planning and right of way study to address the future needs of transmission expansions in the state.

The issues should be considered earlier than 2005, as proposed in AB 2643. For the CEC to delay until 2005 could become a source of delay regarding efforts to timely consider and site LNG facilities in California.

Recommended Amendments

That AB 2643 be turned into a resolution urging the CEC to consider LNG matters in its 2004 IEPR update review, not in 2005. A resolution could be enacted in time to apply to the CEC's 2004 IEPR.

LEGISLATIVE HISTORY

Assembly Floor: 59-7 (pass) (5/6/04)

Assembly Appropriations: 20-0 (do pass) (4/28/04)

Assembly Natural Resources: 10-0 (do pass) (4/19/04)

Assembly Utilities & Commerce: 10-2 (do pass as amended) (3/22/04)

SUPPORT/OPPOSITION

Support: Pacific Gas & Electric

Opposition: None on file.

LEGISLATIVE STAFF CONTACT

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Date: June 8, 2004

BILL LANGUAGE:

BILL NUMBER: AB 2643 AMENDED
BILL TEXT

AMENDED IN SENATE JUNE 3, 2004
AMENDED IN ASSEMBLY MARCH 26, 2004

INTRODUCED BY Assembly Member Canciamilla

FEBRUARY 20, 2004

An act to add Section 25314 to the Public Resources Code, relating to energy.

LEGISLATIVE COUNSEL'S DIGEST

AB 2643, as amended, Canciamilla. Energy: natural gas.

Existing law requires the State Energy Resources Conservation and Development Commission to perform certain planning functions relating to the siting and design of electric power generating and related facilities. Existing law requires the commission to adopt an integrated energy policy report, beginning November 1, 2003, and every 2 years thereafter.

This bill would require the commission, in consultation with the Public Utilities Commission, to prepare, as a component of the 2005 integrated energy policy report, an assessment regarding the costs and benefits of siting liquefied natural gas facilities within the state. *The bill would specify the information that is required to be included in the assessment.*

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

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

SECTION 1. Section 25314 is added to the Public Resources Code, to read:

25314. (a) The commission, in consultation with the Public Utilities Commission, shall prepare , as a component of the 2005 integrated energy policy report adopted pursuant to Section 25302, an assessment regarding the costs and benefits of siting liquefied natural gas facilities within the state.

(b) *The assessment prepared pursuant to subdivision (a) shall include all of the following:*

(1) *An evaluation of differences in safety risks, public acceptance, costs, and other issues associated with placing liquefied natural gas terminals onshore, compared to placing them offshore.*

(2) *An evaluation of differences in safety risks, public acceptance, and other issues associated with connecting new liquefied natural gas terminals to the state's existing natural gas infrastructure, compared to expanding current pipelines to increase natural gas imported from outside the state. This evaluation shall address whether sufficient natural gas from outside the state will be available if the pipelines are expanded.*

(3) *An evaluation of the additional natural gas pipeline capacity*

that is necessary to move liquefied natural gas from west to east.

(4) (A) An evaluation of the impact on performance, safety, and emissions of natural gas fired processes resulting from using liquefied natural gas that is shipped from other countries, compared to using natural gas from current sources.

(B) For purposes of this paragraph, "natural gas fired processes" includes residential, commercial, and industrial processes.

(5) An evaluation of the impact that siting a liquefied natural gas terminal has on local property values.

(6) An evaluation of the impact that siting a liquefied natural gas terminal has on local public safety agencies.

(7) A list of proposed liquefied natural gas projects and their status.

(8) A bibliography of available information associated with the costs and benefits of siting liquefied natural gas terminals in the state.