

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking Regarding
Building Decarbonization.

Rulemaking 19-01-011

(U 39 M)

**REPLY COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U
39 M) ON THE ENERGY DIVISION PHASE II STAFF PROPOSAL**

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I. INTRODUCTION

Pacific Gas and Electric Company (PG&E) respectfully files these Reply Comments pursuant to the Administrative Law Judge’s Ruling Setting Prehearing Conference and Directing Comment on Energy Division Phase II Staff Proposal. PG&E’s Reply Comments address the funding source for the proposed Wildfire and Natural Disaster Resiliency Rebuild (WNDRR) program and the proposal for Baseline reform in the August 20, 2020, Draft Phase II Staff Proposal (Staff Proposal).

II. DISCUSSION

As discussed below, PG&E urges the California Public Utilities Commission (CPUC or Commission) not to use the cap and trade credits intended to offset customer gas rates to promote electrification, as it could open the door for use of cap and trade funds for other programs that do not benefit retail natural gas ratepayers. Regarding the proposed Baseline adder, PG&E (1) stresses its legal concerns regarding Baseline program structure, (2) requests that the Commission consider the impact on total energy (both gas and electric) bills, rather than solely electric bills in its analysis, (3) recommends that the Commission consider the short-term feasibility of a Baseline adder, (4) requests that if the Commission considers California Environmental Justice Alliance’s (CEJA) proposal to use a similar mechanism to that in the San Joaquin Valley Proceeding (SJV), to allow parties to have time to further analyze and comment, and (5) recommends that the Commission hold further workshops before establishing any particular interim rate savings.

A. WNDRR Funding Source

The Phase II Staff Proposal (Staff Proposal) states that the funding of the WNDRR program will “follow the structure established under Decision (D.) 20-03-027 for the BUILD Program and TECH Initiative.”¹ That is, the funds will be collected as part of the state’s allocation of greenhouse gas allowance revenues to natural gas suppliers under the Cap-and-Trade program. While PG&E and The Utility Reform Network (TURN) support the WNDRR program goals, both parties oppose the allocation of natural gas supplier Cap-and-Trade allowance revenues to electricity customers for electrification incentives.²

Southern California Gas Company (SoCalGas) also opposes the funding source, noting that, under California Code of Regulations (CCR) Section 95893(d)(3), “[a]llowance value, including any allocated allowance auction proceeds, obtained by a natural gas supplier must be used for the primary benefit of retail natural gas ratepayers of each natural gas supplier, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers.” PG&E agrees. While the Technology and Equipment for Clean Heating (TECH) and Building Initiative for Low Emissions Development (BUILD) programs are funded by Cap-and-Trade, the allocation for those specific purposes was authorized directly in Senate Bill 1477. The WNDRR program funding through natural gas allowance revenues has not been authorized by legislation or the California Air Resources Board, however meritorious the program may be. Staff Proposal’s interpretation that SB 1477 has established a “structure” by which the Commission may unilaterally reallocate funds intended for the direct benefit of retail natural gas ratepayers is not supportable. Such an interpretation implies that the Commission may divert further natural gas allowance revenues in the future and erode the credit reserved for the benefit of natural gas customers.

Furthermore, as rightfully pointed out by Southern California Edison (SCE), the Commission should structure the WNDRR program to allow identification and allocation of

¹ Staff Proposal, p. 43.

² Comments of TURN on the Phase II Staff Proposal, October 9, 2020 (TURN Opening Comments), p. 16.

funds for Californians affected by wildfires who live outside of the gas investor owned utility (IOU) service territories that are affected by wildfires.³ PG&E agrees that the WNDRR funding source should be structured so that all IOU electric customers should be eligible for the WNDRR rebates, not just those who reside in gas corporation service territories. Therefore, instead of attempting to fund the program by diverting natural gas supplier allowance revenues, it is appropriate that electric customers fund incentive programs for electric appliances and homes through their own rates.

B. Staff Proposal for Baseline Reform

1. PG&E Agrees with TURN and SDG&E’s Legal Concerns About Incremental Baseline Proposal.

PG&E agrees with TURN and SDG&E that the current Staff Proposal would be vulnerable to legal challenge under long-established principles of statutory construction.⁴ The Staff Proposal would effectively alter the Baseline program structure, established by Public Utilities Code Section 739.1., without a legislative amendment to properly include a new electric water heating Baseline adder to existing rates. If the CPUC continues to pursue a Baseline adder after reviewing the parties’ comments, PG&E respectfully requests that all parties be provided with an adequate opportunity to file legal briefs before the CPUC proceeds to a final decision. Alternatively, if the CPUC proceeds with an alternative rate approach, such as PG&E’s E-ELEC or the elimination of the High Use Charge, there would be no such legal issue.

2. PG&E Supports TURN’s Request That Before Proceeding on an Accelerated path with Staff’s Electric Water Heating Baseline Adder Proposal, the Commission Should Consider the Impact on Customer Total Energy Bills - Not Just Electric Bills - Since It Involves Fuel Substitution Projects.

In its Opening Comments, TURN stated that, “[c]ustomers who switch from a gas fired

³ SCE’s Comments on Phase II Amended Scoping Memo and Ruling of Assigned Commissioner, October 9, 2020 (SCE Opening Comments), p. 13.

⁴ TURN Opening Comments, pp. 18-19. Opening Comments of San Diego Gas & Electric Company on Phase II of the Order Instituting Rulemaking Regarding Building Decarbonization, October 9, 2020 (SDG&E Opening Comments), p. 14-15.

or propane water heater to a heat pump water heater will see an increase in electric bills, just as with any fuel substitution or fuel switching measures but should see a larger corresponding decrease in their natural gas bills or propane bills.”⁵ TURN footnotes that, “[d]ata in R.15-03-010 showed that switching to a highly efficient heat pump water heater will reduce total energy (electric plus gas or propane) bills.” TURN’s comments align with E3’s Residential Building Electrification in California Study, which found that electric Heat Pump Water Heaters (HPWH) deliver total energy bill savings in all climate zones studied when compared to gas storage water heaters in retrofit homes.⁶ PG&E agrees that the CPUC should evaluate the impact on customers’ total energy bill, rather than just the electrical bill, in making its determination.

While Natural Resources Defense Council (NRDC) and Sierra Club’s Opening Comments state that, “it is critical that a baseline adjustment is available to these early adopters to avoid ‘effectively punishing them for the very fuel substitution that the CPUC is encouraging through the various incentive programs it has approved,’”⁷ PG&E acknowledges that fuel substitution will not always result in higher total energy bills.

3. NRDC & Sierra Club’s Proposal That the Electric Water Heating Baseline Adder Be Implemented Within Six Months Is Infeasible.

NRDC and Sierra Club recommended in their Opening Comments a deployment of electric water heating baseline within six months.⁸ As stated in PG&E’s Opening Comments,⁹ deploying electric water heating baseline requires structural billing system programming, which

⁵ TURN Opening Comments, p. 17.

⁶ E3 Residential Building Electrification in California Report, April 2019, pp. 59-60. Available at https://www.ethree.com/wp-content/uploads/2019/04/E3_Residential_Building_Electrification_in_California_April_2019.pdf.

⁷ Opening Comments of Natural Resources Defense Council and Sierra Club on the Phase II Staff Proposal, October 9, 2020 (NRDC and Sierra Club Opening Comments), p. 14.

⁸ *Id.* at p. 14.

⁹ Opening Comments of Pacific Gas and Electric Company on the Energy Division Phase II Staff Proposal, October 9, 2020 (PG&E Opening Comments), p. 20.

would take at least eight to ten months, depending on the adopted approach.¹⁰ Given the existing queue of CPUC-ordered PG&E billing system changes already scheduled for programming in 2021, the new work for this proposal could not be implemented before late 2022.¹¹ SCE and SDG&E have stated similar timelines in their respective Opening Comments.¹² NRDC and Sierra Club have not demonstrated the feasibility of their implementation timeframe or recommend what other rate-program could be delayed so that the IOUs can prioritize the proposal. By way of comparison, PG&E's pending E-ELEC rate proposal, now pending in its pending General Rate Case (GRC) Phase II proceeding, would provide bill savings for many customers installing electric HPWH and other efficient, electric technologies. If adopted in 2021, E-ELEC is expected to be made available in 2022, around the same time work on implementing Staff's potential Baseline adder could be completed.

4. If the Commission Considers CEJA's Newly Raised Proposal, Parties Should Be Afforded Additional Opportunity for Analysis.

CEJA's Opening Comments proposed that SJV proceeding should be used as a model for a bill saving provision for low income and Disadvantaged Communities (DAC) customers.¹³ This is a new request that would require further consideration and opportunity for party analysis and input before implementation.

In the SJV proceeding, the CPUC created a Bill Protection mechanism as a bill savings

¹⁰ In addition to structural billing system reprogramming to add a line-item for this new Baseline increment, changes would be needed to other systems that support rate analysis and customer communications, such as the on-line bill comparison/best rate analysis tools. IOUs would also need to establish the appropriate methods to account for many less-straightforward situations expected to arise, such as accommodating multi-family accounts where some units have electric water heaters and other units do not.

¹¹ For more information about the existing queue of changes, see PG&E's Opening Comments, pp. 20-21.

¹² SCE Opening Comments, p. 9. ". . . SCE can implement proposed changes to provide additional baseline quantities only after Q1 of 2022."

SDG&E Opening Comments, p. 18. "Therefore, the earliest SDG&E could implement such a change is mid-2022."

¹³ California Environmental Justice Alliance Opening Comments on Phase II Staff Proposal, October 9, 2020 (CEJA Opening Comments), p. 22-23.

provision to ensure energy cost savings for customers that replace their propane appliances with electric appliances.¹⁴ The Bill Protection mechanism is a monthly percentage-based discount that helps ensure energy cost savings for pilot participants. Any community resident that receives at least one qualifying electric appliance will receive the monthly discount for ten years. There are approximately 1,250 eligible customers in the eight pilot communities in PG&E's service territory.¹⁵

PG&E highlighted the challenges of a percentage-based discount in the SJV proceeding.¹⁶ At a high level, percentage-based discounts are challenging because they require expensive modifications to PG&E's complex billing system and may be delayed due to other information technology priorities and projects. Given these challenges, the automation of SJV Bill Protection will not be available until the fourth quarter of 2021, at the earliest. In the interim, PG&E will manually calculate the bill discounts with a one-month delay. The CPUC approved a budget of more than \$2 million to implement both the manual and automated approaches.¹⁷ PG&E has not developed an estimate for the cost to implement CEJA's proposal, and PG&E recognizes that decarbonization solutions may require updates to its billing system. However, it is pivotal that this proceeding focuses efforts on the most effective solutions. Therefore, PG&E recommends a focus on a long-term rate solution that benefits customers who go all-electric, such as the E-ELEC rate.

Furthermore, if CEJA's suggestion is pursued, it is important to highlight that it may be more challenging than the SJV pilot, given that PG&E expects more customers would be included. The SJV pilot has a total eligible pool of 1,250 customers, but CEJA's proposal would

¹⁴ D.18-12-015, Decision Approving San Joaquin Valley Disadvantaged Communities Pilot Projects, p. 78.

¹⁵ *Id.* at p. 14.

¹⁶ Comments of Pacific Gas and Electric Company on Draft Resolution E-5034, November 29, 2019, pp. 3-5.

¹⁷ D.20-04-006, Decision Modifying Decision 18-12-015 In Response to Petition for Modification and to Address Funding Requirements For Bill Protection And Transitional Community Solar Discounts Mechanisms, p. 19.

include all low income and DAC customers throughout PG&E's entire territory that install electric water heaters. PG&E was not able to fully evaluate CEJA's newly raised general suggestion of a bill credit in the five days after filing Opening Comments. More time and more details are needed for a proper review and analysis which should be part of the record if the CPUC proceeds with such an approach.

PG&E recommends that, if a bill discount mechanism is pursued, it be eligible for more than just one appliance. Avoiding carve-outs for individual appliances and instead enabling customers to electrify multiple systems, such as with the proposed E-ELEC rate, is an approach more aligned with broader decarbonization goals, as well as the goal of promoting customer affordability and simplicity.

5. The CPUC Should Hold Additional Workshops Before Establishing an Interim Rate Savings Approach for Decarbonization.

PG&E's review of the parties' Opening Comments has identified discrepancies on some key factual assertions about potential rate savings approaches. PG&E does not recommend any interim approach be recommended by the CPUC until an adequate record addressing this data is created. Ideally, these matters would be addressed publicly through workshops or, for contested issues of fact, hearings. Among such factual issues are:

- A. How much average annual bill savings can Staff's incremental baseline option provide?

The Staff Proposal assumes SCE's preferred option, the incremental baseline, produces similar annual savings of \$29 per customers in the rest of the state.¹⁸ This suggests that the incremental baseline studied by SCE would provide only a \$29 bill savings per customer per year on average, and that the same figure would be the same for other IOUs as well. However, NRDC and Sierra Club's Opening Comments assert that, "SCE estimated this bill adjustment would save the average customer \$17 per year."¹⁹ There is clearly a mismatch regarding how

¹⁸ Staff Proposal, p. 56.

¹⁹ NRDC and Sierra Club Opening Comments, p. 15.

much the annual bill savings per customer can be achieved by implementing SCE's incremental baseline option, even just for SCE. Currently, there is no record on average bill savings of the Staff Proposal for PG&E or SDG&E, whose rate structures and Baseline quantities differ from SCE's. PG&E believes the CPUC should allow parties to develop the record on actual bill savings for each IOU.

As noted in PG&E's Opening Comments, because of IOU-specific differences, and the need to consider rate proposals under each IOU's cost structure and existing rates and baseline quantities, the CPUC has held that rate design should be performed in utility-specific ratesetting proceedings like GRC Phase IIs and Rate Design Windows where all affected parties participate.²⁰ Utility-specific bill savings and cost shift information should be central to the CPUC's evaluation of whether Staff's proposal is worthwhile.

B. What is the average annual usage of electric water heaters, particularly HPWH?

NRDC and Sierra Club's Opening Comments state, "The Staff Proposal's recommendation to base the amount of the interim baseline adjustment on average daily heat pump water heating consumption is reasonable and expedient, and the Commission should explicitly direct the utilities to an appropriate data source, such as heat pump water heater unit energy consumption (UEC) values in energy efficiency workpapers undated to reflect the latest version of [the Database for Energy Efficiency Resources (DEER)]."²¹ PG&E found the annual usage for HPWH²² from the DEER Water Heater Calculator is about 1500-1900 kilowatt hours (kWh). However, PG&E observes that the HPWH annual usage shared by SCE in the CPUC's public workshop was around 650 kWh per year.²³ The average annual usage of HPWH is a key input to either calculate how much of the incremental baseline adder eligible customers should

²⁰ PG&E Opening Comments, p. 29.

²¹ NRDC and Sierra Club Opening Comments, p. 14.

²² kWh usage for 50 gal, 3.09 UEF, Single Family Heat Pump Water Heater, DEER Water Heater Calculator v4.2.

²³ Stakeholder Workshop: Building Decarbonization Phase II Staff Proposal and Mobilehome Park Electrification and Tenant Protection Topics, September 15, 2020, Slides, p. 151.

get if Staff's Proposal were adopted, or to calculate how much any potential bill credit should be under SDG&E's alternative proposal.

Therefore, PG&E believes that additional workshops are necessary, at a minimum, to clarify these issues. PG&E proposes that above issues first be discussed in workshops, if the Commission wishes to proceed here to order any baseline-related or other interim rate or bill credit proposals; if necessary, testimony could be required on contested issues of fact.

6. PG&E Appreciates NRDC and Sierra Club's Suggested Process Improvements for Customer Understanding.

NRDC and Sierra Club's comments noted that, "anecdotal evidence suggests that because baseline selection is not part of the core rate choice process, many customer center representatives do not know how to change a customer's baseline [End Use Code] even after an explicit request is made."²⁴ Therefore, NRDC and Sierra Club conclude that "[u]tilities need to work diligently to remove as many barriers to electrification as possible."²⁵

The concerns raised by NRDC and Sierra Club are well taken. PG&E believes it is important for customers who install electric space heating or electrify their entire home to understand that their End Use Code may be eligible to be changed to All-Electric, thereby qualifying them for a higher winter baseline allowance for their electric usage. PG&E recognizes the importance of making the process as smooth as possible when such customer requests come in. PG&E appreciates NRDC's suggestion and will diligently work on improving customer experience on this type of changes and better support building electrification efforts.

III. CONCLUSION

PG&E appreciates the opportunity to provide this reply to the responses to the questions in the Administrative Law Judge's Ruling and looks continuing to work with the Commission and the Parties as this proceeding moves forward.

²⁴ NRDC and Sierra Club Opening Comments, p. 15.

²⁵ *Id.* at p. 15-16.

