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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Building Decarbonization.	Rulemaking 19-01-011 (Filed January 31, 2019)

OPENING COMMENTS OF THE CALIFORNIA ENVIRONMENTAL JUSTICE ALLIANCE, ENVIRONMENTAL DEFENSE FUND, NATURAL RESOURCES DEFENSE COUNCIL, SIERRA CLUB, AND THE UTILITY REFORM NETWORK ON THE PHASE III STAFF PROPOSAL

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Pursuant to Rule 14.3 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure, the California Environmental Justice Alliance ("CEJA"), Natural Resources Defense Council ("NRDC"), Environmental Defense Fund ("EDF"), Sierra Club, and The Utility Reform Network ("TURN") – collectively "The Joint Parties" – respectfully submit these Opening Comments on the Commission's Phase III Staff Proposal ("Staff Proposal"). The Joint Parties provide the verification as requested in the Assigned Commissioner's Amended Scoping Memo and Ruling according to Rule 1.11, included here as Attachment A.

I. INTRODUCTION

The Joint Parties strongly support the Commission's Phase III Staff Proposal, which rightly recognizes the role of building decarbonization in California's strategy to combat climate change and appropriately eliminates ratepayer subsidies to fund new gas connections. If adopted, the recommendations of the Staff Proposal would significantly reduce costs currently paid by all gas customers. In 2020 alone, these line extension subsidies to encourage new gas consumption, including allowances, refunds, and discounts, amounted to $144,349,622 for California's four largest gas IOUs, and the total was $609,144,829 over the last five years according to data requests received by the Commission staff. Additionally, each year the total amount of subsidies increased, with 2020 subsidies 43 percent greater than subsidies in 2016.[1]

[1] Staff Proposal, pp. 23-29.

By promoting growth in gas consumption and new gas hook-ups, the existing line extension subsidies work against the goals of multiple Commission-authorized building decarbonization programs also funded by ratepayers (either directly in rates or indirectly through Cap and Trade funds which would otherwise be returned to ratepayers through bill credits), as well as local government, state, and Commission policy.[2] Adopting the Staff Proposal would reduce the future cost burden borne by those customers lacking the resources and/or opportunity to electrify, who, as the Staff Proposal recognizes, are likely to be disproportionately low-income and communities of color.[3] In this regard, the Staff Proposal prevents an exacerbation of the many inequities the Commission must work to dismantle as it plans for the gas system transition. Moreover, Staff Proposal's approach would provide a reasonable and clear transition in line extension policy to provide greater certainty for the builder community, the contractor community, and the gas distribution workforce, while only increasing construction costs minimally or not at all (in the case of all-electric construction).

Burning fossil fuels in California homes and commercial buildings is inconsistent with efforts to combat climate change. As the California Air Resources Board reports, direct emissions from California's buildings, specifically from gas-fueled appliances, are responsible for 10.5 percent of the state's greenhouse gas (GHG) emissions.[4] At the same time, the Staff Proposal points out that "California's gas line extension allowances are designed to encourage gas usage…Builders receive a separate allowance for each approved appliance type, so the more appliances they install, the more they can defray their costs. Those gas appliances, in turn, perpetuate reliance on gas service and lock in all associated GHG emissions for the life of the appliance."[5] Current gas line extension policy contradicts critical efforts underway to

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[2] *See, e.g.,* Staff Proposal Section 2.2; D.21-06-015, issued in A.19-11-003 et al., Ordering Paragraphs 163 and 164 (approving $40.8 million for Southern California Edison Company's (SCE's) Building Electrification Pilot and $10.5 million for SCE's Clean Energy Homes Pilot, which will promote all-electric affordable housing construction in areas not served by, or properties ineligible for, the Building Initiative for Low Emissions Development (BUILD) program). *See also* D.21-09-037, issued in R.13-11-005, pp. 18, 25-26 (incorporating increasingly aggressive estimates of fuel substitution savings potential into the Energy Efficiency Goals).
[3] Staff Proposal, p. 35.
[4] Staff Proposal, p. 9.
[5] Staff Proposal, p. 24.

decarbonize California's building sector as part of achieving the state's GHG emissions reduction imperative.

As state programs to electrify new and existing buildings and to transform the market for electric appliances begin to take effect, in conjunction with a growing number of local reach codes promoting the use of electric appliances in new buildings and the electric-friendly 2022 California Energy Code, the customer base of gas utilities will shrink. At the same time, "Gas demand has been falling since 2013...and PG&E and SoCalGas forecast declines of 1 percent annually from 2021-2035."[6] Notably, these forecasts do not assume significant levels of building electrification.[7] Under the aggressive electrification scenario identified by the CEC to align with California's 2045 carbon neutrality objectives, residential and commercial gas demand would decline even more substantially by 2030.[8] As customers leave the gas system, the existing capital costs of the system will be stranded on customers unwilling, or unable, to transition to electric appliances. The implications of this are clear: ratepayer subsidies that encourage new gas investments, which may eventually become stranded assets, will only <u>exacerbate the equity and affordability challenges of the gas transition</u>. Pumping the brakes on these gas subsidies is long overdue.

Eliminating gas line extension allowances, refunds, and discounts is within the Commission's legal purview. The Staff Proposal makes a convincing case that their recommendations are aligned with Senate Bill (SB) 1477, the preliminary Scoping Memo for R.19-01-011, the line extension statute enshrined in Public Utilities (PU) Code Section 783(f), and with Commission precedent in D.07-07-019.[9] On January 31, 2019, in the Preliminary Scoping Memo for R. 19-01-011, the Commission identified a category of rulemaking for the proceeding that "involves developing guidelines for Commission rules, polices, and procedures

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[6] Staff Proposal, p. 8.
[7] 2020 California Gas Report at 97-98 (SoCalGas assuming no demand reductions from building electrification), 49 (PG&E assuming a base fuel switching scenario of six percent for residential water heaters and 2 percent for residential space heating), https://www.socalgas.com/sites/default/files/2020-10/2020_California_Gas_Report_Joint_Utility_Biennial_Comprehensive_Filing.pdf.
[8] Cal. Energy Comm'n, *Final Commission Report: California Building Decarbonization Assessment*, at 14–15, 45-46, 70 (Aug. 2021) ("aggressive electrification" scenario needed to reduce the direct emissions from buildings in line with California's 2045 carbon-neutrality goal assuming 100 percent electrification in new construction, 90 percent replacement on burnout and 70 percent early retirement): https://www.energy.ca.gov/publications/2021/california-building-decarbonization-assessment
[9] Staff Proposal, p. 31.

to support the development of current and future Title 24 building standards and Title 20 appliance standards at least cost, maximizing their decarbonization benefits."[10] The Scoping Memo contemplates developing incentives for builders to reach decarbonization targets in building codes.[11] It places "additional policies or frameworks that the Commission can use to support transformation of portions of the building market to support faster penetration of more stringent building codes related to building decarbonization" within Phase III of the proceeding.[12] The Staff's Proposal to remove gas line expansion incentives is a policy that can help push the building market towards decarbonization, falling firmly within the legal bounds of this rulemaking.

The gas line extension statute, codified in Public Utilities Code 783(b), requires that when changes are made to "terms and conditions for the extension of services provided by gas and electrical corporations to new or existing customers," the Commission shall make written findings on seven issues.[13] The Staff Proposal provides a strong basis upon which the Commission can make such findings.[14] While the statute requires that the Commission certify findings on open questions such as "the effect of requiring new or existing customers applying for an extension to an electrical or gas corporation to provide transmission or distribution facilities for other customers who will apply to receive line and service extensions in the future," it does not require that new rules result in any particular findings – e.g., favorable rate effects for customers – simply that they be documented. To that end, the Commission is well within its legal power to eliminate gas line extension allowances as long as it makes written the requisite findings, and the Staff Proposal has provided a basis upon which these findings can be made.

While eliminating gas line extension subsidies will only increase the average cost of a dual-fuel building by a fraction of a percent, the benefits to gas ratepayers as a whole can be measured in hundreds of millions of dollars, and the climate necessity of and public health benefits from discouraging new gas connections cannot be overstated. The Commission should

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[10] Staff Proposal, p. 31.
[11] Staff Proposal, p. 9
[12] Staff Proposal, p. 16.
[13] *See*: https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=783&lawCode=PUC.
[14] Staff Proposal, p. 33-36.

adopt the recommendations of the Staff Proposal as they stand, and eliminate gas line extension allowances, refunds, and discounts without delay.

II. COMMENTS

The Joint Parties have organized these comments as responses to the questions in Appendix B.

1. *Should the Commission eliminate or modify gas line extension allowances provided in current gas rules for all or some of the customer classes (residential and non-residential)? If so, explain why.*
    a. *If the position is to modify, and not eliminate the allowances, provide a specific recommendation on how the allowances should be modified and for which customer class*
    b. *If the position is to modify, and not eliminate the allowances, provide support for why the proposed modification should be considered over the Staff Proposal's recommendation to eliminate.*

The Joint Parties strongly support the Staff Proposal's recommendation to eliminate gas line extension allowances (LEAs) for both residential and non-residential customers. The allowances came from a time when inter-connecting more customers to the gas system was thought to be a public benefit because infrastructure costs could be spread out across a larger customer base. Those public benefits are no longer persuasive today in light of countervailing public benefits from building decarbonization; while customers may still want to connect to the gas system, it is no longer reasonable for ratepayers to fund an allowance. Adopting this recommendation would not only save ratepayers hundreds of millions of dollars, but would also support an equitable gas transition, further California's climate goals, improve air quality and related health outcomes in and outside of buildings, and provide greater certainty to builders, contractors, and the gas distribution workforce surrounding the transition to electric appliances. As the Staff Proposal points out, the measure also complements existing programs and policies in California that support the deployment of efficient electric appliances in new buildings, including but not limited to the TECH and BUILD Programs and the recently approved WNDRR Program.[15]

[15] Staff Proposal, pp. 12-15.

Regarding the Staff Proposal's case for eliminating gas LEAs, the Joint Parties raise only one small correction. At page 35, the Staff Proposal states: "Based on 2020 reported data, Staff expect that eliminating gas line extension allowances for all new construction would lead to a reduction of approximately $115,528,305 in <u>annual costs</u> to gas ratepayers ($95,564,041 in residential costs and $19,964,264 in nonresidential costs) as a result of no longer having to pay for gas line extension allowances." The Proposal makes a similar argument at page 46. We agree with the conclusion of these calculations – that eliminating gas LEAs will save gas ratepayers money. However, eliminating gas LEAs would result in this level of avoided additions to a gas utility's *rate base*—not to its annual revenue requirement. The annual revenue requirement in a given year includes return and taxes on and depreciation of the rate base. Therefore, the savings resulting from the elimination of gas LEAs in the first year would not be realized all in year one, but rather spread over many years as the assets in the rate base are depreciated. In each subsequent year, new LEAs that would otherwise be added to rate base would also be avoided, thus compounding the cost savings to ratepayers over time. Given the ratemaking for LEAs, where the utility collects the LEA provided each year over a period of time, with profit added, gas customers would experience savings <u>significantly higher</u> than the Staff Proposal's estimates.

Despite resulting in huge cost savings for gas customers, the elimination of gas LEAs will only increase the average price of a dual-fuel building by 0.25 percent.[16] As the Staff Proposal points out, this is "roughly comparable to the 0.19 percent impact that D.07-07-019 determined will not 'have a material effect on the overall price of housing.'"[17] This means that eliminating gas line extension allowances is in alignment with both Commission precedent and PU Code Section 783(f) governing line extension costs.

> c. *What are the implications of your recommendation for the affordable housing sector and low-income customers? How can any potential negative implications be mitigated?*

The Commission should find that any negative implications for affordable housing developers and low-income home purchasers, in terms of upfront purchasing costs, are very small if nonexistent. Moreover, there will be benefits to the residents of affordable housing and

[16] Staff Proposal, p. 32.
[17] Staff Proposal, p. 32.

low-income customers from Staff's Proposal to the extent that it inspires all-electric construction. While building homes connected to the gas system would be slightly more expensive, as documented by the Staff Proposal, homes could be built all-electric to avoid gas hook-up costs. Further, at least one study has found that electrification in new construction reduces costs over the lifetime of appliances when compared to new homes built with fossil-fuel burning appliances.[18]

Additionally, the Commission should note that the CEC is providing technical assistance and $60 million in incentives to support all-electric affordable housing development through the BUILD Program to ease the transition away from gas in advance of the suggested mid-2023 elimination of gas LEAs. The Commission has also authorized Southern California Edison (SCE) to implement a $10.5 million pilot program, the Clean Energy Homes Pilot, which will promote all-electric affordable housing construction in areas not served by, or properties ineligible for, the BUILD program.[19] These programs sit on top of a newly approved Title 24 Buildings Standards Code that encourages the use of electric appliances in building, through more stringent ventilation standards and the endorsement of the use of electric space and water heaters.[20] These efforts will help affordable housing developers construct all-electric projects at the same or lower costs as dual-fuel buildings, ensuring that the viability of affordable housing is actually improved due to construction cost savings from building all-electric because they can avoid the cost of new gas infrastructure altogether in addition to the direct incentives through BUILD and SCE's Clean Energy Homes Pilot. The BUILD Program Phase 2, which was provided with $75 million in state budget in 2021[21] and is currently under development, will further remove cost barriers to the transition by providing incentives to market-rate all-electric new construction projects.

[18] Billimoria, Sherri, Mike Henchen, Leia Guccione, and Leah Louis-Prescott, "The Economics of Electrifying Buildings: How Electric Space and Water Heating Supports Decarbonization of Residential Buildings," Rocky Mountain Institute (2018), Executive Summary, p. 6.
[19] D.21-06-015, pp. 389-390.
[20] 2022 Building Energy Efficiency Standards Summary, CEC. Available at https://www.energy.ca.gov/sites/default/files/2021-8/CEC_2022_EnergyCodeUpdateSummary_ADA.pdf.
[21] Section 25403.2 of the Public Resources Code: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB137

Importantly, eliminating gas LEAs will also benefit low-income customers in particular by eliminating the cost of LEAs from gas rates. Low-income customers are not typically the ones benefitting from gas LEAs, given their relatively lower rate of new home purchasing – but they do fund them through rates. Even with the TECH and BUILD programs, and other ratepayer-funded programs providing incentives for all-electric construction or fuel substitution retrofits, it is reasonable to assume that many low-income customers will remain on the gas system and will continue to pay for the line extensions. This means that they are helping to subsidize gas line extensions for customers who can afford to purchase a new dual-fuel house.

This inequity will only be compounded as the state continues to transition to electric buildings, raising gas rates and encouraging owners of dual-fuel buildings to transition off the gas system before they effectively pay off their gas LEA in full through their gas bills. As a result, the costs of gas LEAs are likely to be recovered from the customers who remain on the gas system – customers who are unwilling, or unable, to transition to electric appliances. The inequitable outcomes of the existing policy are clear – low-income customers will disproportionately bear the costs of gas line extension allowances provided to higher income customers.

Last but certainly not least, eliminating LEAs will benefit the residents of affordable housing and low-income customers, to the extent that the Staff Proposal motivates all-electric rather than dual-fuel construction. There are proven health impacts associated with the burning of gas in homes. Direct emissions from gas appliances contribute to outdoor air pollution, worsening health outcomes in California communities.[22] But studies have also found that gas appliances deteriorate indoor air quality, at times producing levels of NO_2 that exceed EPA outdoor air quality standards.[23] Concentrations of CO and NO_2 are highest for apartments, due to the smaller residence size, thus impacting residents of new affordable housing multifamily developments and other low-income utility customers who are renters.[24] This indoor air pollution can impact families' health, including by increasing the risk of asthma in children and other

[22] Yifang Zhu, et al., "Effects of Residential Gas Appliances on Indoor and Outdoor Air Quality and Public Health in California," UCLA Fielding School of Public Health (April 2020), p. 7.
[23] Rocky Mountain Institute, Mothers out Front, Physicians for Social Responsibility, and Sierra Club: Health Effects from Gas Stove Pollution, May 2020, p. 7.
[24] Effects of Residential Gas Appliances on Indoor and Outdoor Air Quality and Public Health in California, p. 6.

acute and chronic health effects.[25] Studies have suggested that these health impacts are likely higher in low-income households, which often have less effective stove ventilation systems.[26] Policies that encourage development of all-electric homes occupied by low-income customers, like the Staff Proposal, are an important part of improving equity for communities who disproportionately bear the burden of dangerous health conditions and environmental impacts.

2. *Should the Commission eliminate or modify the 10-year refundable payment option for all or some of the customer classes (residential and nonresidential)? If so, explain why*
    a. *If the position is to modify, and not eliminate the refunds, provide a specific recommendation on how the refunds should be modified, and for which customer class*
    b. *If the position is to modify, and not eliminate the refunds, provide support for why the proposed modification should be considered over the Staff Proposal's recommendation to eliminate.*
    c. *What are the implications of your recommendation for the affordable housing sector and low-income customers? How can any potential negative implications be mitigated?*

The Joint Parties strongly support the Staff Proposal's recommendation to eliminate the 10-year refundable payment option for both residential and non-residential customers, for the same reasons listed in response to Question 1 above. Eliminating gas line extension refunds is additionally important because, as the Staff Proposal explains, the 10-year refundable payment option encourages and incentivizes builders to construct multiple gas-fueled buildings utilizing the same gas distribution line.[27] This is in direct contradiction with California's decarbonization goals.

As the Staff Proposal recognizes, this measure would only increase dual-fuel construction costs by 0.07 percent.[28] This is less than half the "0.19 percent impact that D.07-07-019

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[25] Effects of Residential Gas Appliances on Indoor and Outdoor Air Quality and Public Health in California, pp. 6-7; Health Effects from Gas Stove Pollution, p. 13.
[26] Health Effects from Gas Stove Pollution, p. 14. We acknowledge that exacerbating ventilation problems that are common in older housing stock would presumably be addressed through newly constructed housing, but the effects of indoor gas combustion remains a public health concern.
[27] Staff Proposal, p. 25.
[28] Staff Proposal, p. 37.

determined will not 'have a material effect on the overall price of housing,'" bringing the measure into alignment with PU Code Section 783(f) governing line extension costs.

3. *Should the Commission eliminate or modify the 50 percent discount payment option for all or some of the customer classes (residential and nonresidential)? If so, explain why.*
    a. *If the position is to modify, and not eliminate the discounts, provide a specific recommendation on how the discounts should be modified, and for which customer class.*
    b. *If the position is to modify, and not eliminate the discounts, provide support for why the proposed modification should be considered over the Staff Proposal's recommendation to eliminate.*
    c. *What are the implications of your recommendation for the affordable housing sector and low-income customers? How can any potential negative implications be mitigated?*

The Joint Parties strongly support the Staff Proposal's recommendation to eliminate gas line extension discounts for both residential and non-residential customers, for the same reasons as for Question 1 above. We additionally emphasize the Staff Proposal's findings that eliminating gas line extension discounts would increase average dual-fuel construction costs by only 0.04 percent.[29] Given the state's climate, energy, and gas bill affordability concerns, there is no reason to keep the 50 percent discount payment option for either customer class.

4. *Aside from the lowering the upfront costs of the gas line extensions to the builder or homeowner, what ancillary benefits to stakeholders (including but not limited to the utility, builder, homeowner, ratepayers, society), are provided through continuing these allowances, refunds, and discounts?*

The ratepayer and societal benefits of eliminating gas line extension subsidies far outweigh any upfront capital cost savings or benefits derived by individual gas customers. The individualized upfront cost savings that gas line extension allowances, refunds, and discounts deliver to homeowners are also inequitable, considering that households from low-income and disadvantaged communities are less likely to own their home or to purchase a newly constructed

[29] Staff Proposal, p. 41.

home. Given the inequitable distribution of benefits and the clear contradiction with California's climate, energy, and affordability goals, the Commission should eliminate gas line extension allowances, refunds, and discounts as recommended in the Staff Proposal.

5. *What impact (including but not limited to financial, economic, environmental, equity), if any, would the elimination of these allowances, refunds, and discounts have on the following groups or items in the short term and long term. How can any potential negative impacts be mitigated?*
    a. *Current and future gas ratepayers;*

In the short term and long term, gas ratepayers will experience significant bill savings from the elimination of gas allowances, refunds, and discounts, as noted in the Staff Proposal. In addition, the elimination of these subsidies will increase equity among gas customers by shifting costs from low-income customers to customers who can afford to purchase new, dual-fuel homes, especially if those customers leave the gas system before paying off their gas line extension allowance, refund, or discount in full through rates.

b. *Current and future electric ratepayers;*

Electric ratepayers will likely not be impacted by this measure in the short term. Given the everchanging policy and regulatory landscape, as discussed in Question 1 above, we decline to speculate on the long-term impacts on electric ratepayers of eliminating gas line extension subsidies but reserve the right to reply to comments of other parties.

c. *New home and/or new home construction prices;*

As the Staff Proposal explains at pages 31, 37, and 41, the elimination of gas line extension allowances, refunds, and discounts would not have a significant impact on new home or new home construction prices in the short or long term. Starting in 2022, the CEC will also offer both affordable housing providers and market rate builders with technical assistance and incentives to build all-electric, and thereby provide builders choosing all-electric construction with an opportunity to avoid any negative cost impacts from eliminating these subsidies.

d. New commercial building and/or commercial building construction prices;

The elimination of gas line extension allowances, refunds, and discounts is not expected to have a significant impact on the new commercial building or commercial building construction prices, as addressed in the Staff Proposal.

e. Contractor and Builder community;

Adopting the Staff Proposal's recommendation to end gas line extension allowances, refunds, and discounts beginning in mid-2023 would provide certainty to builders regarding the transition to all-electric buildings, enabling them to prepare for the transition. This is also true for building contractors, such as HVAC installers, and would give the industry time to retrain, retool, and recruit workers to power the transition to all-electric buildings in California.

f. Affordable housing developers;

While the cost of developing a new dual-fuel building might increase slightly, developers could choose to save money by building all-electric. By doing so, they would avoid paying for gas plumbing within the building, as well as the gas line extension and gas meter. As mentioned in response to Question 1 above, if the minimal construction price increase resulting from the elimination of gas line extension subsidies did compel affordable housing developers to build all-electric, they would also be supported through the transition. The Commission has taken steps to provide incentives and technical assistance to affordable housing developers building all-electric for the first time though the BUILD Program, which will be implemented by the California Energy Commission and is expected to be available in March 2022, well before this policy would go into effect, as well as SCE's smaller Clean Energy Homes Pilot.

g. New homeowners;

New homeowners will be impacted by changes in the cost of purchasing a home, which could potentially slightly increase (if dual-fuel) or potentially decrease (if all-electric) as a result of the Staff Proposal. As mentioned in response to Question 1, the average cost of a new dual-fuel home would only increase by a fraction of a percent, and the BUILD Program Phase 2 incentives under development for market-rate home construction are intended to bring down the cost of a new all-electric home by increasing market experience with all-electric new construction. New homeowner utility costs will also be impacted by the Staff Proposal, whether the homeowner purchases a dual-fuel home, despite the elimination of LEAs, or an all-electric home inspired by the Staff Proposal. See the response to Question 6 below. Finally, new homeowners may experience different health, safety, and comfort in their homes, depending on whether the homeowner purchases a dual-fuel home, despite the elimination of LEAs, or an all-electric home inspired by the Staff Proposal. See the response to Question 1.c above.

h. Commercial property owners;

Commercial property owners would also benefit from a clear signal surrounding the transition to all-electric buildings. Owners of dual-fuel commercial buildings may also benefit from the reduction in gas rates that would result from the elimination of gas line extension allowances, refunds, and discounts. Finally, as the Staff Proposal notes, adoption of these policies would have a minimal cost impact on new dual-fuel construction.

i. Low income, disadvantaged, low ranked Socioeconomic Vulnerability Index (SEVI) communities, and Environmental and Social Justice (ESJ) communities;

As explained in response to Question 1 above, low-income, disadvantaged, low ranked SEVI communities, and ESJ communities would benefit from the elimination of gas line extension allowances, refunds, and discounts, which would increase equity through the gas transition. Each of these groups would benefit from lower gas rates by avoiding the funding of additional LEA subsidies, for as long as they are connected to the gas system.

These communities would also enjoy improved indoor and outdoor air quality, to the extent they have the opportunity to reside in new homes constructed as all-electric thanks to the Staff Proposal. Please see the discussion of air quality impacts in response to Question 1.c.

Similarly, if the Staff Proposal stimulates additional all-electric construction, all communities would benefit from improved outdoor air quality relative to the impacts of building more dual-fuel homes. These benefits would flow to low-income, disadvantaged, low ranked SEVI communities, and ESJ communities that already disproportionately bear the cumulative health and environmental impacts of fossil fuel combustion and other pollutants, coupled with unjust barriers to health care.

j. Gas industry workforce;

Ending subsides for gas line extension should have minimal workforce impacts given that California has already adopted policies that require or encourage new construction to be all-electric including local all-electric building codes, the 2022 update to Title 24, and BUILD and other all-electric incentive programs. The proposed changes to the Commission's line extension policy reinforce already strong existing signals that future workforce needs will not include expansion of the gas system to new buildings.

k. The electric grid and electricity demand;

The elimination of gas line extension allowances, refunds, and discounts would likely have a negligible impact on the electric grid and electricity demand in the short term, given the likely initial pace of new all-electric home additions. However, in the long term, the construction of many more all-electric houses will increase electricity demand. The Commission and other state agencies can continue to plan for a long-term increase in electric load through their established planning processes, such as the Integrated Resource Planning and Electric Grid Planning efforts, to make best use of the existing electric grid assets and minimize the need for new grid assets.

l. The gas system and gas demand; and

Because this measure impacts only new building construction, it will not result in a loss of the existing gas customer base or significant gas demand in the short term. Additionally, as the Staff Proposal points out, "Overall gas demand has been falling since 2013, with PG&E and SoCalGas both forecasting continuing declines of one percent annually between 2021 and 2035. This overall gas consumption decline is due mostly to less natural gas being used to generate electricity."[30] Eliminating gas line extension allowances, refunds, and discounts are not likely to alter this existing demand trend significantly. Instead, the main impact that this measure would have on the gas system is a significant reduction in the gas infrastructure costs passed on to gas ratepayers, which will benefit all gas customers.

[30] Staff Proposal, p. 9.

m. Gas and electric utilities

As a result of eliminating gas line extension allowances, discounts, and refunds, gas and dual-fuel utilities would no longer receive a rate of return on these expenditures. This is because instead of being included in the rate base and depreciated each year through inclusion in the annual revenue requirement, the costs of these assets would be paid by the builder or owner at the time of construction.

6. *How would the proposed elimination of these allowances, refunds, and discounts impact the utility bills of those customers in a new all-electric building versus a new dual fuel building in the short term and long term?*

a. Bill impacts for a new all-electric building owner

We expect a minimal bill impact for all-electric homeowners in the short term, based on the cost of energy for electric versus gas appliances and the small impact on total electric demand, and thus rates, from near-term new construction.[31] Given the everchanging policy and regulatory landscape, we decline to speculate on the long-term bill impacts of the Staff Proposal for customers living in new all-electric homes but reserve the right to reply to forecasts provided by other parties.

b. Bill impact for a new dual-fuel building owner

Because the capital cost of the new gas infrastructure would be incorporated into the cost of the new home, the only immediate and direct utility bill impact that a new dual-fuel

[31] *See* Billimoria, S., et al., Rocky Mountain Institute (2018), pp. 29-30 (concluding that as modeled in Oakland, the new construction net present cost of heat pump water and space conditioning is lower than that of natural gas water and space heating (with new AC), including significantly lower fixed costs but slightly higher energy costs for the heat pump systems); Energy and Environmental Economics (E3), "Residential Building Electrification in California: Consumer economics, greenhouse gases and grid impacts" (April 2019), pp. 57-69 (finding (1) significant bill savings from HVAC heat pumps compared to gas heating plus electric AC in new construction homes; (2) mixed results on utility bill impacts from heat pump water heaters compared to new construction gas water heaters; (3) bill increases from electric cookstoves, both induction and electric resistance, compared to gas stoves; (4) bill increases from electric clothes dryers, using either heat pump or electric resistance technology, relative to a gas dryer; and (5) that 55% of single family and 66% of low-rise multifamily new construction homes would see bill savings from all-electric construction, with 10% of each seeing bill increases of greater than $100 a year and the remainder with bill increases of less than or equal to $100 per year).

homeowner would experience would be a decrease in rates. This is because they would no longer pay for their own or others' gas line extensions through their utility bills.

7. *Public Utilities Code Section 783(b) states that whenever the Commission "institutes an investigation into the terms and conditions for the extension of services provided by gas and electrical corporations to new or existing customers, or considers issuing an order or decision amending those terms or conditions, the commission shall make written findings" on seven distinct issues. Therefore, to assist the Commission in making written findings, we invite party comments on the issues outlined in Public Utilities Code Section 783(b) and Section 4 of the Staff Proposal (see Appendix A, R.19-01-011 Phase III Staff Proposal, Section 4).*
    a. *The economic effect of the line and service extension terms and conditions upon agriculture, residential housing, mobile home parks, rural customers, urban customers, employment, and commercial and industrial building and development.*
    b. *The effect of requiring new or existing customers applying for an extension to an electrical or gas corporation to provide transmission or distribution facilities for other customers who will apply to receive line and service extensions in the future*
    c. *The effect of requiring a new or existing customer applying for an extension to an electrical or gas corporation to be responsible for the distribution of, reinforcements of, relocations of, or additions to that gas or electrical corporation.*
    d. *The economic effect of the terms and conditions upon projects, including redevelopment projects, funded or sponsored by cities, counties, or districts.*
    e. *The effect of the line and service extension regulations, and any modifications to them, on existing ratepayers.*
    f. *The effect of the line and service extension regulations, and any modifications to them, on the consumption and conservation of energy.*
    g. *The extent to which there is cost-justification for a special line and service extension allowance for agriculture.*

The Joint Parties support Energy Division Staff's findings on these matters, which are detailed in the Staff Proposal at pages 33, 38, and 42 for gas line extension allowances, refunds, and discounts, respectively.

8. *What other issues and/or factors should the Commission consider in determining whether or not to adopt the Staff Proposal?*

The questions outlined in Appendix B do not include an important consideration in determining whether to adopt the Staff Proposal: the climate implications of the decision. Gas line extension allowances, refunds, and discounts all serve as incentives to expand the gas system at a time when the science on climate change is clear – the world cannot continue to burn fossil fuels gratuitously and without consequence. While it may take time to phase fossil fuels out of some sectors, low-carbon alternatives to gas appliances exist today in the form of highly efficient electric appliances that can be powered by California's increasingly low-emission electric grid. Given the existence of a reasonable alternative, there is no justification for continuing to subsidize gas distribution infrastructure and gas appliances for new buildings.

Finally, decarbonization is not only a social imperative – it is required by California law. It is critical to pump the brakes on GHG emissions, and eliminating gas line extension subsidies for new buildings is a common-sense place to start.

III. CONCLUSION

The Joint Parties appreciate the opportunity to comment on the Phase III Scoping Memo and its attachments. We strongly encourage the Commission to adopt the recommendations of the Staff Proposal, which would increase equity, save gas customers money, and help deliver on California's climate goals by ending significant ratepayer subsidies that encourage new gas distribution infrastructure and appliances.

For the same reasons, we recommend that the Commission ensure that the Staff Proposal recommendations are ultimately adopted for all Commission-jurisdictional gas utilities that provide line extension subsidies in California, not just those utilities specifically mentioned in the Staff Proposal. Necessary procedural steps should occur posthaste after the Commission acts upon the Staff Proposal or otherwise in a manner that does not disturb the Phase III schedule adopted in the Scoping Memo.

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Respectfully submitted,

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