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

Application of Pacific Gas and Electric Company for Approval of Zonal Electrification Pilot Project (U 39 G).	Application No. 22-08-003 (Filed August 10, 2022)

RESPONSE OF NATURAL RESOURCES DEFENSE COUNCIL TO APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 G) FOR APPROVAL OF ZONAL ELECTRIFICATION PILOT PROJECT

September 12, 2022

Kiki Velez
Merrian Borgeson
Natural Resources Defense Council
111 Sutter Street, 21st Floor
San Francisco, CA 94104
Tel: (415) 875-6100
Email: kvelez@nrdc.org,
mborgeson@nrdc.org

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of Zonal Electrification Pilot Project (U 39 G).	Application No. 22-08-003 (Filed August 10, 2022)

RESPONSE OF NATURAL RESOURCES DEFENSE COUNCIL TO APPLICATION OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 G) FOR APPROVAL OF ZONAL ELECTRIFICATION PILOT PROJECT

On August 10, 2022, Pacific Gas and Electric Company ("PG&E") filed Application 22-08-003, requesting approval of its zonal electrification pilot project. The Natural Resources Defense Council ("NRDC") files this response to PG&E's Application pursuant to Rule 2.6 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure.

NRDC supports Commission approval of PG&E's zonal electrification application and request for expedited review, with one modification – to reduce the amortization period of the investment to no more than 10 years. The Commission should take advantage of this opportunity to save gas customers money while also advancing climate goals. The proposed zonal electrification project at CSU Monterey Bay represents an opportunity to contract the gas system without the need to consider or reinterpret the obligation to serve or construct a new framework for gas infrastructure investment, which should appropriately occur in the Long-Term Gas System Planning proceeding (R.20-01-007).

I. INTRODUCTION

In the Phase III Proposed Decision in the Building Decarbonization Proceeding (R.19-01-011), the Commission correctly observes that, as California transitions to all-electric buildings per state climate goals,[1] "any new gas investments could become stranded assets in the future."[2]

[1] *See, e.g.,* Governor Newsom's Letter to the California Air Resources Board ("CARB") (July 22, 2022) (adopting statewide goals of 6 million heat pumps in homes by 2030 and 7 million climate-ready and climate-friendly homes by 2035) and CARB Draft State Strategy for the State Implementation Plan (Aug. 12, 2022) (proposing a zero-emission appliance standard for space and water heating that would enter into effect in 2030).
[2] California Public Utilities Commission, R. 19-01-011, Phase III Proposed Decision at 49 (Aug. 8, 2022) ("We are not convinced by the Joint IOUs' argument that an exception for a specific group of projects is necessary given the urgent nature of California's decarbonization goals and the likelihood that any new gas investments could become stranded assets in the future").

The PD additionally notes that the costs of underutilized gas assets are most likely to fall on low-income customers, who are least able to afford to transition to electric appliances without assistance.[3] Given the risks associated with new gas infrastructure, the state should endeavor to retire aging gas infrastructure in favor of targeted electrification whenever possible.

These gas system contraction efforts must also be accompanied by market transformation for electric appliances to be scalable over the medium and long term. Specifically, the state must continue to advance electrification policies in the near-term that ready the market for all-electric appliance standards by 2030, as proposed in CARB's State Strategy for the State Implementation Plan ("SIP"). This market development will in turn enable even more cost-effective gas pipeline retirements, since homes served by those pipelines would be more likely to have already adopted electric appliances and those that remain would have access to a more mature market for efficient electric technologies. As CARB notes, there is need for "a suite of equity-promoting and complementary building decarbonization policies deeply informed by public process that include scaling back natural gas infrastructure, expanding construction of zero-emission buildings, and building a sustainable market by increasing affordability and accessibility through expanding incentive programs, ensuring utility rates are supportive of electrification, developing the workforce, and increasing consumer education" that paves the way for appliance standards.[4]

Given these policy considerations, NRDC generally supports targeted electrification where it is cost-effective. Over time, we anticipate that the number of cost-effective targeted electrification projects will increase as electrification incentive programs, rate reform, new construction codes, natural heat pump adoption, and eventually all-electric appliance standards create clear policy signals.

This pilot project is an opportunity to save gas customers money while also advancing climate goals, and it should be pursued expeditiously. This pilot also represents an opportunity to develop the electrification workforce, spur the market for electric appliance installations, and avoid new long-lived gas infrastructure without having to contend with some of the thorny issues such as obligation to serve, because a single entity in this case can commit to electrifying hundreds of housing units. However, the Commission has yet to determine how to reshape gas

[3] *Ibid* at 29.
[4] SIP at 101: https://ww2.arb.ca.gov/sites/default/files/2022-08/2022_State_SIP_Strategy.pdf (accessed 9/10/22).

infrastructure planning and investment or how targeted electrification can be scaled in a least-cost, equitable manner. Therefore, while we generally support this project, it should not set a precedent for how utilities should pursue or finance all future targeted electrification projects.

II. RECOMMENDATIONS

A. The Commission should expeditiously approve this application, modified to reduce the amortization period of the investments from 15 years to a maximum of 10 years.

PG&E's application demonstrates that by pursuing electrification instead of new gas infrastructure, there is a net present value of approximately $1 million to benefit utility customers. This is in addition to the climate and air quality benefits of these investments, and the avoided risk of future stranded assets. Allowing PG&E to use existing capital budgets that would have been used for the gas investment is a fair and expedient means of funding this pilot. In the future, NRDC hopes that obligation serve issues would be addressed such that the benefits of receiving new appliances and upgrades would result in some cost sharing with customers that have the ability to pay, thus furthering lower the expense for remaining gas customers. We additionally hope that gas utilities will, in the future, simply be *required* to invest in the least cost options to provide energy services, rather than needing to submit time-consuming applications. But this is not the case today – CSU's "alternative" is to pay nothing for the higher-cost option to ratepayers of replacing the gas lines, and PG&E is making a significant effort move beyond business as usual to align investments with the state's climate goals with this application. This should be acknowledged and encouraged given the outdated frameworks that we currently have in place. Moreover, to defer the investment in gas infrastructure, all gas appliances need to be electrified before a set date. This guarantee of complete electrification of end uses would not occur absent this application.

However, we recommend adjusting the amortization period to a maximum of 10 years. There is not an obvious basis for what the amortization period should be. PG&E states that the "proposed 15-year period is consistent with the useful life of the individual electric appliances." But since PG&E will not own and operate these appliances, nor be responsible for their replacement at the end of their useful life, there is no compelling reason to select this time period. Instead, impacts on gas customers should be a greater consideration for the amortization period. Paying for all costs in the first year would create a sudden and relatively large rate impact, but amortizing the investment over a much longer time period increases the total cost to customers due the cost of capital. A longer period also places greater burden on customers that may remain on the gas system longer, which without additional intervention, are likely to be customers with more limited resources. To avoid this potential inequitable outcome and also to avoid sudden rate increases in year one, we suggest an amortization period of no more than 10 years. Adopting a 10-year period would also align with the Mobilehome Park Utility Conversion Program.[5]

B. The Commission should use this application as an opportunity to learn, but precedent should not be set with this project.

The Commission should use this project as an opportunity to learn while avoiding non-cost effective new investments in gas infrastructure. However, the Commission should defer any wide-reaching decisions on treatment of electrification costs to the Long-Term Gas System Planning proceeding. In the Long-Term Gas System Planning proceeding the Commission should explore scalable and equitable methods for financing targeted electrification projects. In addition to using capital budgets for gas infrastructure as is proposed for CSU Monterey, future options may include augmenting the utility's expense budget for targeted electrification, collecting funds via public purpose program (PPP) charges or redirecting existing PPP funds, utilizing cap and trade funding, allowing contributions from electric customers, and requiring the affected customer to pay for a portion of the electrification upgrade.

Additionally, if possible, within the urgent timeline of the CSU Monterey project, a modest amount of TECH Initiative funding should be used to enable the central collection of data on these upgrades as well as to reduce the financial impact on gas customers. For example, if TECH were to contribute $1000 per housing unit, this would reduce the capitalized costs and would also enable the TECH Initiative to collect data about the performance of these upgrades in their existing data warehouse.[6]

---

[5] PG&E Testimony at 4-4.
[6] See, e.g.: https://techcleanca.com/public-data/ (accessed 9/10/22).

III. CONCLUSION

NRDC appreciates the opportunity to respond to PG&E's application. We look forward to learning from this opportunity to avoid non-cost effective new investments in gas infrastructure.

Dated: September 12, 2022

Respectfully submitted,

/s/ Kiki Velez
/s/ Merrian Borgeson
Natural Resources Defense Council
111 Sutter Street, 21st Floor
San Francisco, CA 94104
Tel: 415-875-6100
Email: kvelez@nrdc.org, mborgeson@nrdc.org