

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



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Application of Pacific Gas and Electric  
Company for Approval of Zonal Electrification  
Pilot Project (U39G).

Application 22-08-003  
(Filed August 10, 2022)

**RESPONSE OF SIERRA CLUB**

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*On Behalf of Sierra Club*

Dated: September 12, 2022

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

Application of Pacific Gas and Electric  
Company for Approval of Zonal Electrification  
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**RESPONSE OF SIERRA CLUB**

Pursuant to Rule 2.6 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, respondent Sierra Club timely files the following response to the Application of Pacific Gas and Electric Company (“PG&E”) for Approval of its Zonal Electrification Pilot Project (“Pilot Project”) at California State University, Monterey Bay (“CSU Monterey Bay”). The Application appeared on the Daily Calendar on August 12, 2022.

**I. SIERRA CLUB SUPPORTS THE PROPOSED PILOT WITH POTENTIAL MODIFICATIONS**

In its Application, PG&E proposes to electrify all behind-the-meter (“BTM”) gas uses of over 600 units of housing owned by CSU Monterey Bay and decommission the existing degraded distribution pipeline rather than proceed with pipeline replacement as originally contemplated in its 2023 General Rate Case (“GRC”) Application.<sup>1</sup> PG&E seeks Commission approval of the same 7.34 percent rate of return for the proposed BTM electrification measures as it would have otherwise been entitled to if it had proceeded with gas pipeline replacement. Costs of the Pilot Project would be assigned to PG&E’s gas customers, with PG&E stating that the Project’s economic benefits to its gas customers will exceed their costs.<sup>2</sup> PG&E seeks expedited review of its Application and potential use of the “criteria and accounting method proposed in this application to create a template for future zonal electrification efforts.”<sup>3</sup>

Sierra Club strongly supports zonal electrification as an alternative to continued investment in gas infrastructure and fossil fuel reliance. As the Application notes, building

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<sup>1</sup> PG&E Prepared Testimony, at 1-5:10–12; 4-5 at Table 4-1; 4–6, (Aug. 10, 2022) (“PG&E Prepared Testimony”).

<sup>2</sup> *Id.* at 4-6:10–12; Application at 1.

<sup>3</sup> *Id.* at 1-3:26–27.

decarbonization is critical for California to achieve its climate objectives, and managing the transition off the gas system through zonal electrification can “both reduce emissions and promote long-term gas ratepayer affordability.”<sup>4</sup> In reviewing the Application, particularly where its criteria would be used as a template for future zonal electrification projects, Sierra Club recommends the following issues be evaluated in this proceeding:

Appropriate Rate of Return for Zonal Electrification Investments:

The Pilot Project is an ideal candidate for zonal electrification for several reasons, including that electrification of appliances can proceed without the need for electrical panel upgrades, the housing stock includes limited design variations, and the decision to electrify all the units is in the power of one entity, CSU Monterey Bay. Because of this combination of circumstances, PG&E found cost savings even with its requested 7.34 percent rate of return. However, that does not necessarily make this rate of return appropriate.

First, this high rate of return may not be justified where, as here, the Pilot Project largely consists of direct installs of electric appliances that will be located behind the meter and that PG&E will not own, operate, or maintain. While the recovery options for electrification under the existing rules are limited, other options to additionally consider for the composite rate of return could include an individualized rate of return based on the characterization of the asset. Another option could be modeled after a 2018 Ohio program, in which AEP Ohio was allowed to collect a five percent administration fee for administering an electric vehicle charging station rebate program.<sup>5</sup> In that proceeding, like the proposal here, the utility was facilitating an electrification program but not seeking ownership over the appliances. Through its participation in this proceeding, Sierra Club intends to help develop the record on these issues and offer recommendations that will aid in the development of an appropriate regulatory treatment for this and future zonal electrification projects.

Second, a 7.34 percent rate of return significantly increases overall project costs. When the proposed rate of return is accounted for, Pilot Project costs increase from \$17.2 million to \$29.3 million, or over 70 percent.<sup>6</sup> PG&E appears to propose that zonal electrification projects

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<sup>4</sup> *Id.* at 1-2:5–7.

<sup>5</sup> See Opinion and Order In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143, in the Form of an Electric Security Plan, at 27, Case No. 16-1852-EL-SSO (Ohio Pub. Serv. Comm’n., Apr. 25, 2018), <https://dis.puc.state.oh.us/ViewImage.aspx?CMID=A1001001A18D25B43534I06271>.

<sup>6</sup> PG&E Testimony at 4-5, Table 4-1.

should not move forward where gas ratepayers would “pay more for electrification than the pipeline alternative on a net present value of revenue requirement basis,” absent non-ratepayer-funds to bridge any cost gap.<sup>7</sup> By adding significantly more to project costs, PG&E’s proposed regulatory asset treatment may impede California from electrifying at the speed and scale needed to meet the State’s health, equity, and climate goals. An alternative regulatory treatment such as those outlined above may better facilitate rapid, affordable electrification. A lower return would reduce total costs and make more potential zonal electrification projects viable.

Third, as the Commission continues its work in the Gas Planning Proceeding and resolves issues such as the obligation to serve, it may develop standards for reviewing pipeline replacement projects such that they may not be prudent where there is a viable zonal electrification project. Accordingly, it cannot be assumed that gas customers would otherwise have paid for gas pipeline replacement and that same rate of return should be applied to future zonal electrification projects.

Need for *Ex Post Facto* Review:

PG&E proposes that expenditures on the Pilot Program “up to \$17.224 million are deemed reasonable without the need for *ex post facto* review.”<sup>8</sup> *Ex post facto* review would seem to be particularly appropriate here given the pilot nature of the project and any precedential value it might hold. The Pilot Project will be a first in terms of zonal electrification at this scale. Yet as PG&E’s Application notes, its cost estimates “do not include any projected cost savings (for instance, economies of scale)” or “any available energy efficiency or decarbonization incentives that may further reduce project costs and make the electrification option more cost effective.”<sup>9</sup> *Ex post facto* review will not delay this project nor subsequent projects, but can protect customers from potentially unnecessary costs and provide insights into actual costs of zonal electrification projects. These insights can help improve the design of future zonal electrification projects and may help identify factors that make the Pilot Project more cost-effective than anticipated, which could aid in the identification of future zonal electrification opportunities.

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<sup>7</sup> *Id.* at 1-4:1–2.

<sup>8</sup> *Id.* at 4-10:10–11.

<sup>9</sup> *Id.* at 2-4:6–7, 9–11.

### Appropriate Time Frame for Cost Recovery:

PG&E proposes its electrification expenditures be recovered over a 15-year period.<sup>10</sup> Sierra Club agrees with PG&E that this proposed “recovery [period] has the benefit of being less than that of the conventional gas replacement, promoting even greater long-term gas ratepayer affordability in year 16 onward.”<sup>11</sup> A shorter recovery period, such as 10 years, would provide greater long-term affordability and should be considered. As PG&E noted in its Energy Efficiency Business Plan Application, “unsustainable increases in gas rates and customer energy bills could be seen after 2030, negatively affecting customers who are least able to switch away from gas, including renters and low-income residents.”<sup>12</sup> Because a 15-year cost recovery period would extend until the late 2030s, a shorter period should be considered.

## **II. EFFECT OF THE APPLICATION ON THE RESPONDENTS**

Sierra Club is a non-profit public benefit corporation with over 740,000 members nationwide, and more than 150,000 members living in California. Many of these members are residential customers of PG&E. One of Sierra Club’s highest priorities is to achieve rapid and equitable decarbonization through effective policies that reduce greenhouse gas pollution. California’s homes and buildings are responsible for nearly 50 million tons of greenhouse gas emissions annually.<sup>13</sup> Establishing effective zonal electrification policies is an important tool in realizing widespread building decarbonization. Sierra Club is also a party to the related Long-Term Gas System Planning Order Instituting Rulemaking (R.20-01-007).

## **III. SCHEDULE**

Sierra Club supports PG&E’s request for expedited consideration of the Pilot Project application.

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<sup>10</sup> *Id.* at 1-3:1–2.

<sup>11</sup> *Id.* at 1-3:7–9.

<sup>12</sup> PG&E Application, Ex. PG&E-1, EE 2024 Business-Portfolio Plan & EE 2024-2031 Strategic Business Plan Prepared Test., at 1-24 (quoting Energy and Environmental Economics, *The Challenge of Retail Gas in California’s Low-Carbon Future*, CEC, at iii (Apr. 2020)).

<sup>13</sup> California Air Resources Board, *California Greenhouse Gas Emissions for 2000 to 2019: Trends of Emissions and Other Indicators*, at 2 and 8 (July 28, 2021), [https://ww2.arb.ca.gov/sites/default/files/classic/cc/inventory/2000\\_2019\\_ghg\\_inventory\\_trends\\_20220516.pdf](https://ww2.arb.ca.gov/sites/default/files/classic/cc/inventory/2000_2019_ghg_inventory_trends_20220516.pdf) (Residential and commercial buildings representing 10.5 percent of the 418.2 million metric tonnes CO<sub>2</sub> equivalent emissions in California’s latest greenhouse gas inventory or over 48 tons).

#### IV. COMMUNICATION OF SERVICE

For the purpose of receipt of all correspondence, pleadings, orders, and notices in this proceeding:

The following representative for Sierra Club should be placed on the service list as a “party”:

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**V. CONCLUSION**

Sierra Club appreciates the opportunity to submit this response.

Dated: September 12, 2022

Respectfully submitted,

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