STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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TO PARTIES OF RECORD IN RULEMAKING 19-01-011:

This is the proposed decision of Commissioner Darcie L. Houck. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 14, 2023 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties to the proceeding may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s/ MICHELLE COOKE
Michelle Cooke
Acting Chief Administrative Law Judge

MLC:nd3
Attachment

Decision **PROPOSED DECISION OF COMMISSIONER HOUCK**
(Mailed 11/3/2023)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Building Decarbonization.	Rulemaking 19-01-011

DECISION ELIMINATING ELECTRIC LINE EXTENSION SUBSIDIES FOR MIXED-FUEL NEW CONSTRUCTION AND SETTING REPORTING REQUIREMENTS

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DECISION ELIMINATING ELECTRIC LINE EXTENSION SUBSIDIES FOR MIXED-FUEL NEW CONSTRUCTION AND SETTING REPORTING REQUIREMENTS

Summary

This decision resolves the outstanding Phase 3B issues and furthers the California Public Utilities Commission's (Commission) policy goal to adopt policies aimed at reducing greenhouse gas emissions associated with energy use in buildings while also furthering the State of California's goals of reducing economy wide greenhouse gas emissions to 40 percent below 1990 levels by 2030 and achieving carbon neutrality by 2045 or sooner.

Specifically, this decision eliminates electric line extension subsidies for all mixed-fuel new construction (building projects that use gas and/or propane in addition to electricity) effective July 1, 2024. Additionally, the new rules adopted herein require all mixed-fuel new construction projects to use actual cost billing of an electric line extension rather than estimated cost billing effective January 1, 2025. To track the progress of the rule changes and to monitor savings from the elimination of electric line extension subsidies for mixed-fuel new construction, the decision establishes an annual reporting requirement for California's three largest electric investor-owned utilities (IOU) beginning May 1, 2024.

The decision adopts the same exemption criteria set by the Commission to grant subsidies for gas line extension projects, as outlined in Decision 22-09-026. Effective July 1, 2024, the new rules will only apply to new applications for electric line extensions in mixed-fuel new constructions. The decision will not

impact upgrade applications for existing facilities, or any applications submitted to the electric IOUs before July 1, 2024.[1]

Within 30 days of the effective date of this decision, each IOU shall submit a Tier 2 Advice Letter to revise their respective electric line extension tariffs in compliance with this decision.

This proceeding remains open.

1. Procedural Background

On September 13, 2018, Governor Jerry Brown signed into law Senate Bill (SB) 1477 (Stern, Chapter 378, Statutes 2018). To promote California's building-related greenhouse gas (GHG) emissions reduction goals, SB 1477 makes available $50 million annually for four years, for a total of $200 million, dedicated towards two building electrification pilot programs. These funds derive from the revenue generated from the GHG emissions allowances directly allocated to gas corporations and consigned to auction as part of the California Air Resources Board (CARB) Cap-and-Trade program.

In response to the passage of SB 1477, the California Public Utilities Commission (Commission) initiated the instant Rulemaking (R.) 19-01-011.

On May 17, 2019, the assigned Commissioner issued a Scoping Memo and Ruling setting forth the issues to be considered in Phase I of R.19-01-011 (Phase I Scoping Memo). The Phase I Scoping Memo was amended on July 16, 2019, to include additional issues. Phase I issues were resolved in Decision (D.) 20-03-027, which established the two building decarbonization pilot programs required by SB 1477: the Building Initiative for Low-Emissions Development (BUILD)

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[1] The term existing facilities refers to existing buildings/facilities/projects that are undergoing upgrades to service lines and/or distribution system infrastructure under Electric Tariff Rules 15/16 (tariff that governs the investor-owned electric utilities' distribution line extensions and network equipment) and are not new construction projects.

Program and the Technology and Equipment for Clean Heating (TECH) Initiative.

On August 25, 2020, the assigned Commissioner issued an Amended Scoping Memo and Ruling setting forth the issues to be considered in Phase II of R.19-01-011 and included an associated Energy Division Staff Proposal. Phase II issues were resolved in D.21-11-002, which: (1) adopted guiding principles for the layering of incentives when multiple programs fund the same equipment; (2) established a new Wildfire and Natural Disaster Resiliency Rebuild program to provide financial incentives to help victims of wildfires and natural disasters rebuild all electric properties; (3) provided guidance on data sharing; (4) directed California's three large electric investor-owned utilities (IOU) to study energy bill impacts that result from switching from gas water heaters to electric heat pump water heaters, and to propose a rate adjustment in a new Rate Design Window application if their study reflected a net energy bill increase (resolved in Resolution (Res.) E-5233); and (5) directed the large electric IOUs to collect data on fuels used to power various appliances, including propane.

On November 16, 2021, the assigned Commissioner issued an Amended Scoping Memo and Ruling setting forth the issues to be considered in Phase III of R.19-01-011. Initial Phase III issues were resolved in D.22-09-026, which eliminated gas pipeline extension subsidies (*i.e.*, allowances, refunds, and discounts) for all new line extension requests submitted on or after July 1, 2023, for all customers in all customer classes unless otherwise exempted.

On July 26, 2023, the assigned Commissioner issued an Amended Scoping Memo and Ruling (Phase 3B Scoping Memo) setting the scope and schedule for Phase 3B of this proceeding, which included Energy Division's Phase 3B Staff Proposal (Staff Proposal) as an attachment. Phase 3B Scoping Memo directed the parties to review the Staff Proposal, consider the reasonableness of modifying or ending electric line extension subsidies for all mixed-fuel new construction (*i.e.*, building projects that use gas and/or propane in addition to electricity), and file comments responsive to the questions set forth in Appendix B to the Phase 3B Scoping Memo.

On August 15, 2023, several parties filed opening comments on the Staff Proposal and responded to the issues and questions in Appendix B to the Phase 3B Scoping Memo.[2] On August 25, 2023, several parties filed reply comments.[3] The Administrative Law Judge (ALJ) granted SBUA permission to late-file its reply comment.

2. Submission Date

This matter was submitted on August 28, 2023.

3. Issues Before the Commission

In this decision, the Commission addresses the following Phase 3B issues:

(a) Whether the Commission should modify or eliminate electric line extension subsidies for mixed-fuel new construction for some or all customer classes (residential and non-residential);

(b) Whether applicant builders of mixed-fuel new construction projects should be required to pay actual costs encumbered by the electric IOU to facilitate electric line extension rather than only estimated costs, as well as whether the electric IOUs should be required to report annually on electric line extension expenditures; and

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[2] In alphabetical order: California Building Industry Association (CBIA), Coalition of California Utility Employees (CUE), Pacific Gas and Electric Company (PG&E), Small Business Utility Advocates (SBUA), San Diego Gas and Electric Company (SDG&E), and Southern California Edison Company (SCE). Sierra Club, California Environmental Justice Alliance, and Natural Resources Defense Council filed joint comments (collectively referred to as Joint Parties).

[3] In alphabetical order: Public Advocates Office at the California Public Utilities Commission (Cal Advocates), Joint Parties, SCE, SDG&E, and Southern California Gas Company (SoCalGas).

(c) Whether applicant builders of mixed-fuel new construction projects should be exempt from any potential elimination of electric line extension subsidies if the building project is granted an exemption by the Commission from the elimination of gas line extension subsidies.

4. Summary of the Staff Proposal

Staff Proposal (Appendix A) concludes that the provision of electric line extension subsidies for mixed-fuel new construction effectively promotes the use of gas lines in building construction. It reasons that despite D.22-09-026 discontinuing gas line extension subsidies, the continued provision of electric line extension subsidies for mixed-fuel new construction rewards builders who extend new gas lines, thus hampering California's efforts to encourage all-electric new construction.

According to the Staff Proposal, when a new building is built, a new overhead or underground electric service line must be installed to connect the building's electric meter to a utility's electric distribution line; this is called a "service line extension." It states that the utility's existing distribution infrastructure may also need to be extended or rearranged to facilitate the new service line extension, called a "distribution line extension."

The Staff Proposal explains the rules governing allowances,[4] refunds,[5] and/or discounts[6] for electric line extensions. Based on the data presented in the Staff Proposal, the following table summarizes the state-wide total allowances, refunds, and discounts given to builders between 2018-2022 for residential and non-residential customers:

Type of Subsidy	**Residential**	**Non-Residential**
Allowance	$372,147,508	$1,004,449,971
Refunds	$192,601,732	$48,293,170
Discounts	$109,648,859	$384,541,821

The Staff Proposal presents three key recommendations: (1) eliminate electric line extension subsidies for all mixed-fuel new construction; (2) require all mixed-fuel new construction to pay for final actual costs of an electric line extension rather than initial estimated costs only, and require each electric IOU to report annually on electric line extension expenditures;[7] and (3) exempt from the

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[4] Allowances are ratepayer funds provided by an electric utility to a builder to help cover the cost of the electric line extension. Electric line extension allowances consist of a single lump sum for each new meter associated with the project. (Staff Proposal at 13.) If electric line extension costs exceed the available allowance, the builder can opt to receive either a refund or a discount to help cover any eligible excess costs.

[5] For refunds, project costs fall into "refundable" and "non-refundable" costs after the builder advances all the project costs exceeding the allowance to the utility. For refundable costs, the utility will refund the builder over 10 years the "refundable" costs if sufficient amount of new electric load are added onto the same electric distribution line. (Staff Proposal at 17.)

[6] Regarding discounts, builders can forgo the 10-year refund option and instead choose a 50 percent discount option where the builder only pays half of the project costs that would otherwise be considered refundable.

[7] For reporting requirements, the Staff Proposal recommends that the electric utilities should report in May of each year — starting May 1, 2024 — on electric line extension expenditures broken down separately by customer class for both mixed-fuel new construction and all-electric new construction including (1) total electric line extension requests from applicant builders, (2) total electric line extension estimated costs (refundable and non-refundable amounts),

recommended elimination of electric line extension subsidies all non-residential building projects that receive an exemption from the prohibition on gas line extension subsidies through the process established in Ordering Paragraph (OP) 3 of D.22-09-026.

The Staff Proposal also recommends revising tariff language for Electric Tariff Rule 15 and Electric Tariff Rule 16 to effectuate proposed changes regarding the provision of subsidies for mixed-fuel new construction. Electric Tariff Rule 15 governs distribution line extensions. Electric Tariff Rule 16 governs service line extensions. To explore the Phase 3B issues, Appendix B to the Staff Proposal included additional questions.

5. Electric Line Extension Subsidies for Mixed-Fuel New Construction

The Phase 3B Scoping Memo directed the parties to file comments on whether the Commission should eliminate or modify line extension subsidies (*i.e.*, allowances, refunds, and discounts) provided in current Electric Tariff Rules for all or some of the customer classes (residential and non-residential) that seek to build mixed-fuel new construction (*i.e.*, building projects that use gas and/or propane in addition to electricity).

Those comments indicate that most of the parties generally support discontinuing electric line extension subsidies for mixed-fuel new construction. SCE and Joint Parties strongly support the Staff Proposal to encourage all-electric buildings through the elimination of allowances for mixed-fuel buildings. PG&E, SDG&E and CBIA generally favor removing subsidies but provide their own recommendations for modifications. CUE and SBUA oppose the Staff Proposal.

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(3) total electric line extension actual costs (refundable and non-refundable amounts), and (4) total subsidies (allowances, refunds, and discounts). (Staff Proposal at 22.)

5.1. Opening Comments

SCE agrees with the Staff Proposal's recommendation to eliminate line extension subsidies for all customer classes that seek to build mixed-fuel new construction. SCE believes that it aligns with the Commission's and California's climate policies and goals, and prevents unnecessary stranded assets.[8] Regarding the impact on the affordable housing sector and low-income customers, SCE states that building unnecessary mixed-fuel residential new construction can result in stranded gas assets that could unduly burden low-income residents if they cannot afford to electrify.[9] SCE recommends that the Commission clarify the definition of "new construction" by utilizing the Title 24, Part 6 definition for Newly Constructed Building and Newly Conditioned Space as outlined in the 2022 California Energy Commission (CEC) Building Energy Efficiency Standards for Residential and Nonresidential Buildings,[10] which provides: (1) a Newly Constructed Building is a building that has never been used or occupied for any purpose;[11] and (2) a Newly Conditioned Space is any space being converted from unconditioned to directly conditioned or indirectly conditioned space.[12]

The Joint Parties support the Staff Proposal's recommendation and state that the Commission should eliminate electric line extension subsidies for all customer classes seeking to build mixed-fuel new construction at the earliest possible opportunity.[13] The Joint Parties argue that eliminating all line extension

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[8] SCE Opening Comments, filed on August 15, 2023, at 3.

[9] *Id.* at 4.

[10] SCE Opening Comments at 21-22.

[11] CEC 2022 Building Energy Efficiency Standards at 82. The Building Energy Efficiency Standards contain the requirements in the Energy Code (Title 24, Part 6).

[12] *Id*. at 82.

[13] Joint Parties Opening Comments, filed on August 15, 2023, at 3.

subsidies for mixed-fuel buildings will signal to developers and builders to design and build all-electric new buildings consistent with the building decarbonization strategies of California agencies such as: the CEC's 2022 Building Energy Efficiency Standards; their 2025 Energy Code Pre-Rulemaking, which outlines strategies and objectives for the 2025 code cycle update; and CARB's Final 2022 Scoping Plan, which emphasizes the need to transition away from gas use in both residential and commercial buildings.[14]

Regarding the impact of these changes on affordable housing and low-income customers, the Joint Parties state that this customer segment would benefit from eliminating electric line extensions in mixed-fuel new construction. They state that all-electric new construction is already more affordable than mixed-fuel construction, particularly given the elimination of gas line extension subsidies.[15] The Joint Parties further state that all-electric residential building design in affordable housing also provides immediate operational cost savings for residents, plus protection from future gas rate shock forecasted to occur due to decreasing gas demand.[16] According to the Joint Parties, policy that supports the development of all-electric, zero-emissions buildings and discourages the construction of additional polluting buildings is a first step toward addressing air quality and public health issues that are disproportionately borne by low-income households.[17] To ensure continuing support for electrification retrofits, the Joint Parties ask the Commission to clarify that the Staff Proposal recommendation does not apply to existing buildings, as an existing mixed-fuel

[14] *Id*. at 4-5.

[15] *Id*. at 6.

[16] *Id*. at 7.

[17] *Id.* at 8.

household electrifying most but not all appliances would not be eligible for any electric line extension allowances to cover potential service line upgrade costs.[18] The Joint Parties ask the Commission to increase the electric line extension allowance for electrification retrofits.[19]

While PG&E supports the Staff Proposal, it offers alternatives for consideration as part of either Phase III or in a subsequent phase of this proceeding.[20] PG&E recommends eliminating electric line extension subsidies for ***all*** new construction (as opposed to only mixed-fuel new construction).[21] PG&E also recommends creating a "special targeted decarbonization cost treatment" for residential customers by replacing residential allowances for existing services where the electric utility covers the refundable costs of service upgrades that are subject to allowance (subject to Electric Tariff Rule 16) for existing residential buildings where the customer adds new and permanent electric load associated with decarbonization projects (*e.g.*, switching from gas to electric appliances).[22] PG&E does not propose any targeted decarbonization treatment for non-residential customers at this time, but recommends that it be the subject of a later stage of this proceeding, as they state that non-residential customers will likely incur additional service upgrade costs when compared to residential buildings.[23]

[18] *Id.* at 2.

[19] *Ibid.*

[20] PG&E Opening Comments, filed on August 15, 2023, at 2.

[21] *Ibid.*

[22] PG&E Opening Comments at 3-7.

[23] *Id.* at 5.

In its response to the question concerning implications for the affordable housing sector and low-income customers, PG&E states that its alternative proposal provides a greater benefit to affordable housing and low-income customers than the Staff Proposal. It further states that these customers are more likely to live in existing housing units with undersized panels and are least likely to be able to afford the additional costs associated with a service upgrade.[24]

SDG&E recommends eliminating all electric line extension subsidies for new construction customer projects and existing facilities.[25] SDG&E states that its recommendations would level the playing field between any fuel choices being made by customers or builders for new construction projects, remove cross-subsidization and streamline processes across customer classes.[26] SDG&E states that eliminating subsidies entirely (*i.e.*, for both gas and electric line extensions) for new construction projects would create a fair and level playing field, remove cost shifts, simplify the process, and lead to more efficient administrative activities and resources for electric utilities.[27]

Regarding the impact of eliminating electric subsidies on the affordable housing sector and low-income customers, SDG&E states that they expect the impact to be minimal "since low-income customers aren't typically the primary stakeholder utilizing the line allowances or building new homes."[28] SDG&E states that to mitigate any impact, it may be appropriate to retain electric line extension subsidies for low-income customers at least on a transitional basis or

[24] *Id.* at 7.

[25] SDG&E Opening Comments, filed on August 15, 2023, at 2.

[26] *Id.* at 2-3.

[27] *Ibid.*

[28] SDG&E Opening Comments at 4.

make another accommodation like new programs that would encourage solar to support all-electric end uses.[29] For commercial projects, SDG&E states that increased building costs could be passed on to commercial tenants who serve low-income customers. SDG&E acknowledges that it is difficult for SDG&E to estimate or quantify the impacts in such scenarios.[30]

CBIA agrees with the Staff Proposal but requests that any change from current policy not apply to mixed-fuel single-family dwellings and multi-family dwellings that are already in the development process by not applying the change in policy to (a) a project for which the owner/developer has entered into a utility line extension agreement, or (b) a project for which a tentative map has been approved.[31] CBIA also raised constitutional issues.[32]

SBUA opposes the Staff Proposal and argues that the subsidies for extending electric lines to small commercial customers, who use gas in addition to electricity, should not be removed. SBUA states that small commercial customers play a crucial role in economic development in disadvantaged communities, and if the Commission eliminates these subsidies, the Commission should also help these customers afford all-electric operations.[33]

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[29] *Id.* at 5.

[30] *Id.* at 4.

[31] CBIA Opening Comments, filed on August 15, 2023, at 5.

[32] CBIA states that if a developer is not reimbursed after the agreement is entered into, it may be unconstitutional under the Contracts Clause of the United States Constitution. Regarding the tentative subdivision map, CBIA states that it may be subject to condition of construction based on the line extension subsidy, which could raise a federal constitutional issue. CBIA cites a legal challenge that was filed in opposition to the Town of Windsor's gas ban regarding environmental review and adverse environmental impacts due to the elimination of natural gas.

[33] SBUA Opening Comments, filed on August 15, 2023, at 4.

CUE opposes the Staff Proposal. CUE states that the Staff Proposal is premature and that the building electrification issues should instead be addressed in the Long-Term Gas Planning Proceeding (R.20-01-007).[34] CUE states that with a decreased base of customers to pay for gas infrastructure, there would be issues of safety and reliability to consider.[35] CUE argues that the state must address employment impacts on gas workers from the electrification of buildings.[36]

5.2. Reply Comments

The Joint Parties oppose removing electric line extension subsidies for all new construction.[37] Instead, they recommend continuing subsidies for electric line extensions and reviewing them in 2026, after the implementation of the 2025 Building Code.[38] They reject PG&E's proposal to end subsidies in favor of retrofits. On affordable housing and low-income customer impact issues, the Joint Parties state SDG&E is incorrect for: (1) assuming affordable housing developers are unfamiliar with all-electric design or benefits; and (2) stating programs for all-electric affordable housing development do not currently exist.[39]

The Joint Parties disagree with CBIA's arguments on tentative maps, citing prior similar arguments when the gas line extension matters were under

[34] CUE Opening Comments, filed on August 15, 2023, at 2.

[35] *Id.* at 4.

[36] *Id.* at 6.

[37] Joint Parties Reply Comments, filed on August 25, 2023, at 2.

[38] *Id.* at 3.

[39] *Id.* at 6.

consideration.[40] The Joint Parties state that no additional delay or exception is necessary for projects that are in progress at the time of implementation, as the Legislature and Public Utilities (Pub. Util.) Code Section 783(d) gives at least six months for changes to Electric Tariff Rule 15 and Electric Tariff Rule 16 to take effect.[41] As to the Town of Windsor citation, the Joint Parties state the situation is irrelevant as it was about a reach code, while the Staff Proposal does not require a change to the project, only a change in funding.[42]

The Joint Parties agree with PG&E that the Commission should address service upgrade costs resulting from the electrification of existing buildings by extending to these projects the same "common facility costs" treatment provided for electric vehicle charging upgrades.[43] They state that these subsidies are especially important for low-income and mobile homes seeking to electrify and may also be eligible for TECH funding.[44] They also state that if the Commission believes further deliberation is necessary before extending common facility cost treatment to retrofit upgrade costs, it should initiate that process separately so as not to delay the adoption of the Staff Proposal's policy regarding new construction.[45]

SDG&E opposes the proposal to increase electric line extension subsidies for existing buildings.[46] SDG&E states that it will reduce ratepayer savings —

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[40] Joint Parties Reply Comments at 6.

[41] *Ibid.*

[42] *Id.* at 7.

[43] Joint Parties Reply Comments at 3.

[44] *Id.* at 4.

[45] *Id.* at 2.

[46] SDG&E Reply Comments, filed on August 25, 2023, at 3.

including low-income ratepayers — and contradicts affordability concerns underpinning the Staff Proposal.[47] SDG&E is concerned about the approval of a new program that may be duplicative of CEC efforts. SDG&E supports funding of programs such as these via state funds rather than energy rates because it is a more equitable funding source.[48]

SCE disagrees with PG&E's and SDG&E's proposals to eliminate electric line extension subsidies for all-electric new construction.[49] Until Title 24 Building Code requires new construction to be built all-electric only, SCE states that mixed-fuel is still an option.[50] SCE adds that continuing subsidies for all-electric new construction incentivizes customers to choose all-electric new construction when compared to mixed-fuel new construction, which would offer no project subsidies.[51] SCE agrees to continue subsidies for currently ongoing projects, and it recommends an alternate approach if the Commission eliminates electric line extension subsidies for mixed-fuel new construction and requires actual cost pricing upon project completion.[52] SCE recommends three criteria to exempt existing projects currently in construction: (1) the invoice must be paid as of the implementation date as determined by the Final Decision; (2) utility contract (SCE's Electric Tariff Rule 15) must be signed and received by SCE as of the implementation date as determined by the Final Decision; and (3) the

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[47] *Id.* at 3.

[48] *Ibid.*

[49] SCE Reply Comments, filed on August 25, 2023, at 3.

[50] *Ibid*.

[51] *Ibid.*

[52] *Id. at* 5.

forementioned projects must be field complete/energized no later than 12 months after the implementation date as determined by the Final Decision.[53]

SBUA's reply comments state that the opening comments of several parties have no response to how the policy change would affect commercial property owners.[54] SBUA states its understanding of Title 24 requirements for new construction to be electric-ready applies exclusively to residential new construction.[55] SBUA asks the Commission to clarify the definition of new construction; proposes adopting the BUILD program's definition in D.20-03-027; and recommends defining new construction as a building that has never been used or occupied, or any renovation where 50 percent or more of the exterior weight-bearing walls are removed.[56]

Cal Advocates' reply comments support the Staff Proposal's elimination of electric line extension subsidies for mixed-fuel new construction projects, and they state that subsidizing mixed-fuel new construction is inconsistent with California's climate policies and recent Commission Decisions.[57]

5.3. Discussion

This decision resolves the remaining Phase 3B issues and eliminates electric line extension subsidies for all customer classes[58] that seek to build mixed-fuel new construction,[59] effective July 1, 2024. The decision applies to new

[53] *Ibid.*

[54] SBUA Reply Comments, filed on August 25, 2023, at 2.

[55] *Id.* at 2.

[56] *Id.* at 5.

[57] Cal Advocates Reply Comments, filed on August 25, 2023, at 1.

[58] *I.e.*, residential and non-residential customers.

[59] *I.e.*, building projects that use gas and/or propane in addition to electricity.

applications for electric line extensions in mixed-fuel new construction submitted on or after July 1, 2024, and will not affect applications for upgrades to existing facilities nor affect any applications submitted to the electric IOUs before July 1, 2024.[60] Within 30 days of the effective date of the decision, the electric IOUs shall each submit a Tier 2 Advice Letter, seeking revision of their respective tariffs to implement this decision.

For purposes of this decision and to better align with the CEC and upcoming updates to the Building Energy Code, we define new construction to be the same as noted in the 2022 Building Energy Efficiency Standards, where a Newly Constructed Building is a building that has never been used or occupied for any purpose.[61] If a future update to the Building Energy Efficiency Standards changes the newly constructed building definition, this decision will follow and rely on the most recent definition. We decline to adopt SCE's suggestion to include the definition of Newly Conditioned Space — that definition is too restrictive for new constructions.

In D.22-09-026, the Commission eliminated gas pipeline extension allowances, refunds, and discounts for all new applications. The Staff Proposal's recommendation to eliminate electric line extension in mixed-fuel new construction is reasonable and aligns with the state's climate goals as it advances the building electrification policy framework. The Staff Proposal identifies the next logical step toward the state's 2030 climate and 2045 carbon neutrality goals by diverting remaining subsidies away from new mixed-fuel buildings.

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[60] The term existing facilities refers to existing buildings/facilities/projects that are undergoing upgrades to service lines and/or distribution system infrastructure under Electric Tariff Rules 15/16 and are not new construction projects.

[61] CEC 2022 Building Energy Efficiency Standards at 82.

SCE and the Joint Parties argue that eliminating electric line extension subsidies for mixed-fuel new construction will encourage more all-electric new construction and prospectively reduce GHG emissions in the building sector even further. We agree. Eliminating these subsidies should discourage building mixed-fuel, giving builders a reason to evaluate the cost of creating mixed-fuel gas assets that could be stranded in the coming years as California moves towards cleaner appliances and all-electric building codes and standards.

SBUA and CUE oppose eliminating electric line extension subsidies for mixed-fuel construction, but we find their comments unpersuasive. SBUA argues that the Commission should provide assistance to mixed-fuel small commercial customers so they can afford all-electric operations; however, SBUA fails to explain why that should occur or how that would be in the public interest in the overall scope of what we are examining in this proceeding. We are therefore unpersuaded by SBUA but note that Cal Advocates correctly points to other publicly funded programs, such as $3.6 billion of Energy Efficiency program funding over the next four years, that could go to programs that aid commercial customers with electrification.

Removing subsidies for all electric line extensions is premature. As codes and standards are implemented and market forces shift, we find that subsidies may eventually become unnecessary to encourage IOU customers to adopt cleaner technologies. However, we do not currently support removing all electric line extension subsidies for new construction (as proposed by PG&E) or for both new and existing facilities (as proposed by SDG&E).

We agree with SCE's comments that using mixed-fuel options in new construction should be discouraged. Offering subsidies for electric line extensions in all-electric buildings, until codes and standards mandate it, will encourage a shift away from gas reliance and toward building electrification. Until the Title 24 Building Energy Code requires all-electric new construction, providing electric line extension subsidies for constructing all-electric buildings is a reasonable approach to achieving the state's climate goals.

We agree with the Joint Parties that maintaining electric line extension subsidies for all-electric new construction is important for promoting zero-emissions, all-electric designs in the state's building stock.

We decline to consider PG&E's proposal to eliminate electric line extension subsidies for all new construction and replace residential allowances for existing services with special targeted decarbonization common facility cost treatment that allows electric utilities to cover the refundable costs of service upgrades that are subject to allowance for existing residential buildings. We also decline to consider the Joint Parties' request that the Commission increase the electric line extension allowance for electrification retrofits.

As part of a subsequent phase or sub-phase of this proceeding, Energy Division may propose for consideration, a process to eliminate all electric line subsidies for all customers and ways to fund electric upgrade costs, especially for the affordable housing sector and low-income customers who, as the Joint Parties note, are least able to afford potential service line upgrade costs.

We agree with SDG&E that building decarbonization should take a more systematic and strategic approach to provide meaningful impact and mitigate potential negative downstream impacts to affordability. However, we decline to adopt SDG&E's suggestion to eliminate all electric line extension subsidies for both new construction and existing facilities because subsidizing electric-line extension for construction of all-electric buildings, as an interim step, will contribute toward building decarbonization until the Building Energy Code mandates all-electric new construction.

The Joint Parties correctly opine and this decision confirms that the Staff Proposal does not recommend the elimination of electric line extension subsidies for all new construction and existing facilities. Likewise, we agree with SCE and confirm that until the Title 24 Building Code requires new construction to be built as all-electric only, mixed-fuel new construction is still an option.

While it is reasonable to continue the subsidies for currently ongoing mixed-fuel single and multi-family new construction projects, CBIA's proposed criteria are ambiguous and may cause confusion for utilities when deciding whether to subsidize a project under development. Instead, we prefer SCE's proposed criteria as it provides more specific guidelines, including clear criteria with a timeline for ongoing mixed-fuel new construction projects in the development process.

Therefore, this decision adopts the three criteria proposed by SCE, with modifications, to exempt existing projects currently in construction: (1) invoice paid by July 1, 2024; (2) Electric Tariff Rule 15 contract signed and received by the IOU by July 1, 2024; and (3) projects completed within 12 months of July 1, 2024. This decision clarifies that July 1, 2024, is the implementation date when the new rules become effective, according to Pub. Util. Code Section 783(d).

CBIA is concerned that projects switching to all-electric construction will be subject to environmental review. As to this concern, we agree with the Joint Parties that the reference used by CBIA for the Town of Windsor is incorrect and is inapplicable to the Staff Proposal.

We agree with the Joint Parties and SCE about the impact of these changes on the affordable housing sector and low-income customers. Adopting the Staff

Proposal will not threaten affordable housing development or low-income customers. On the contrary, building electrification could serve as a risk reduction strategy to protect low-income and vulnerable communities from future gas rate increases, and the lower cost of all-electric new construction vis-à-vis mixed-fuel new construction may result in lower rents for tenants due to the need to recoup fewer costs associated with the building purchase. Although the Staff Proposal does not recommend special carve-outs or exemptions for affordable housing sector or low-income customers, the Joint Parties accurately state that existing public funding sources provide financial resources for all-electric designs as baseline development projects that support the sector.[62]

We disagree with SDG&E that mitigating any potential impact on low-income customers may require retaining electric line extension subsidies, at least on a transitional basis, or making other reasonable accommodations for these sectors. Retaining a transitional funding source for these sectors will be efficient if there is meaningful public interest and participation in that funding source. SDG&E states it is hard to predict the impact of eliminating electric subsidies to low-income customers since low-income customers aren't typically the primary stakeholders utilizing the electric line extension allowances for new construction. Additionally, the Joint Parties' references demonstrate how public programs already support all-electric building construction for affordable housing and low-income customers.

While we are not adopting any exemptions or funding for these sectors, the Commission reviewed the party comments and finds that these issues should

[62] Joint Parties Reply Comments at 5-6.

be further examined. PG&E's proposal to focus on expanding common facility cost treatment for service upgrades needed for existing buildings to electrify could provide greater long-term benefits to affordable housing and low-income customers. However, if the Commission were to consider PG&E's request in this decision, it would potentially delay implementing other important changes to the existing line extension rules until July 2025. As mentioned above, we may explore how to better direct these funds and savings toward existing buildings in a subsequent phase or sub-phase of this proceeding.

The Staff Proposal recommends modifying the tariffs to reflect rule changes. Within 30 days of the effective date of the decision, the electric IOUs shall each submit a Tier 2 Advice Letter, seeking revision of their respective tariffs to implement this decision.

6. Actual Versus Estimated Costs Paid by Applicant Builders of Mixed-Fuel New Construction and Investor-Owned Utilities Reporting Requirements

The Phase 3B Scoping Memo directed the parties to file comment on whether applicant builders of mixed-fuel new construction projects should be required to pay actual costs encumbered by the electric IOUs to facilitate electric line extensions rather than only estimated costs, and whether the electric IOUs should be required to report annually on electric line extension expenditures.

The Staff Proposal recommends requiring mixed-fuel new construction projects to pay final actual costs for any electric line extension in addition to any gas line extension, which would be accomplished via an initial estimated payment followed by cost true-up once interconnection work is complete. As to reporting requirements, the Staff Proposal recommends that the large electric IOUs prospectively report annually on May 1 of each year on electric line extension expenditures broken down separately by customer class for both mixed-fuel new construction and all-electric new construction.

6.1. Actual Versus Estimated Costs

6.1.1. Opening Comments

On the issue of adopting actual costs, the Joint Parties and SDG&E support the Staff Proposal; and SCE and PG&E oppose it.

The Joint Parties state that this issue was thoroughly examined when the Commission reviewed actual costs for gas line extension subsidies, and that Res. G-3598 settled the issue by requiring utilities to change their existing tariffs such that the applicant at whose behest the natural gas pipelines are being extended, pay for the total actual costs of the extension and not the initial estimated costs only.[63] They also argue that using estimated costs for line extensions — instead of actual costs — creates a loophole that burdens ratepayers and passes expenses onto utility customers in subsequent general rate case proceedings.[64]

Supporting the Staff Proposal on using actual cost billing for all new construction ***and*** existing facilities projects, SDG&E states that actual cost billing facilitates simplicity and ease of implementation.[65] SDG&E states that, if adopted, ratepayer investments and ongoing additional resources will be required to perform true-ups, refunds, supplementary billing, billing inquiries and disputes, collections, legal actions, and basic tracking to ensure that any true-up payments are timely collected.[66]

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[63] Joint Parties Opening Comments at 8.

[64] *Ibid*.

[65] SDG&E Opening Comments at 6.

[66] *Id.*

According to PG&E, its actual cost tracking is not currently at a level of itemized granularity, which makes it difficult to determine actual costs or to send subsequent bills/credits when contract execution is based on estimated costs.[67] It states that additional costs may be incurred on a project that may or may not be covered by the allowance if those additional costs could be designed as subject to-refund/allowance.[68] PG&E also state that it is difficult to charge the correct amount, unless additional allowances are applied.[69] Furthermore, PG&E states that if the Staff Proposal is to eliminate electric line extension subsidies for mixed-fuel new construction, then all estimated costs would be designated non-refundable.[70] PG&E recommends continuing billing electric line extensions for mixed-fuel new construction applicants on an exclusively estimated cost basis.[71]

SCE recommends that the Commission eliminate electric line extension subsidies for mixed-fuel new construction while not requiring a change from the current use of estimated costs, as set forth in Electric Tariff Rule 15, to the use of actual costs and reconciliation/re-invoicing.[72] SCE states that it anticipates mixed-fuel line extension requests will decline after subsequent updates to Title 24 go into effect.[73] SCE argues that it will have to change its current system,

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[67] PG&E Opening Comments at 8.

[68] *Ibid.*

[69] *Ibid.*

[70] *Ibid.*

[71] *Ibid.*

[72] SCE Opening Comments at 3-5.

[73] *Id.* at 5.

as it is not set up to handle actual cost pricing.[74] SCE states that it would take one year to implement a temporary system-wide process update and two years from the adoption of the decision to automate the system for this change.[75]

6.1.2. Reply Comments

SCE reiterated its position in the reply comments and agreed with PG&E's opening comments.[76] SCE argues that creating an automated process for reconciliation and reporting of actual costs is a resource intensive effort, requiring systemwide process changes, and placing additional burden on the ratepayers for unnecessary and expensive system upgrades.[77]

SDG&E repeats its proposal to eliminate all electric line extension subsidies in lieu of the Staff Proposal's selective approach, and to establish actual cost billing for all projects.[78]

SBUA agrees with SCE and recommends that extension costs continue to be estimated in the near term to avoid ratepayer costs associated with making any necessary system billing and process updates.[79]

6.1.3. Discussion

We approve the Staff Proposal's recommendation to require all mixed-fuel new construction to pay for final actual costs of an electric line extension instead of using only estimated costs. To accommodate SCE's request for at least one

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[74] *Ibid.*

[75] *Ibid.*

[76] SCE Reply Comments at 4.

[77] *Ibid.*

[78] SDG&E Reply Comments at 4.

[79] SBUA Reply Comments at 3.

year to update their billing system and processes, this process will become effective January 1, 2025.

As stated in Section 5.3 above, this decision eliminates electric line extension subsidies for mixed-fuel new construction projects. Consistent with Res. G-3598, we require electric IOUs to modify their tariffs to require applicants to pay the final actual costs of the electric line extension and not the initial estimated costs only. Per Res. G-3598, the new actual cost billing process does not entail the elimination of the existing estimated cost billing process, but instead "only requires that the utility sends a final true-up invoice to the applicant after construction is completed and all costs have become known."[80] It adds:

> To achieve this goal, the utility simply needs to modify its current tariff language and contract terms to clarify that the applicant will be required to pay actual costs once construction is complete, or, if estimated costs are found to be higher than actual costs, then the applicant will be reimbursed for the difference.[81]

The current process is built around ratepayers paying for any shortfalls between actual and estimated costs for line extensions. Once electric line extension subsidies for mixed-fuel new construction are eliminated, it is reasonable not to burden ratepayers with additional costs if total actual costs exceed the estimated costs. The electric IOU working with the applicant for an electric line extension should continue to endeavor to ensure that estimated costs are as close to actual costs as possible.

PG&E's asserts that the removal of electric line extensions for mixed-fuel applicants renders all estimated costs non-refundable. This assertion is

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[80] Res. G-3598 at 8.

[81] *Ibid.*

unfounded. The Staff Proposal recommends reimbursing applicants when estimated cost is higher than the final actual cost, or requiring applicants pay the additional amount when final actual cost is higher than estimated cost.

The electric IOUs referenced system and process upgrades. We are not convinced with their arguments that extensive upgrades and changes will be required to implement this process change. The Commission states in Res. G-3598 that the intention of requiring actuals is not to track real-time payment of actual costs but rather to ensure that actual construction costs are borne by the applicant at the end of project completion.[82] Res. G-3598 further states that gas utilities already track the difference between actuals and estimated costs through rate recovery within General Rate Case (GRC) filings.

Similarly, we find it reasonable for the electric IOUs to modify their current tariff language and contract terms to reflect that the applicant for an electric line extension for mixed-fuel new construction also be required to pay actual costs at the end of project completion. Inversely, if estimated costs are found to be higher than actual costs, the applicant will be reimbursed for the difference. As adopted in Res. G-3598, we agree that utilities will only need to send a final true-up invoice to the applicant after the construction is completed and all costs have been known. We find the process outlined in Res. G-3598 to be appropriate for the electric utilities and for ratepayers, who will stop subsidizing excess costs through GRC filings.

Between July 1, 2024, and January 1, 2025, California's large electric IOUs will not provide electric line extension subsidies on mixed-fuel new construction projects; instead, they will continue to price them on estimated costs and not

[82] Res. G-3598 at 8.

actual costs. An applicant for a mixed-fuel new construction project that applies for an electric line extension on or after January 1, 2025, shall be invoiced after project completion if final actual costs are higher than estimated costs, or reimbursed if estimated costs were higher than final actual costs.

SCE commented that they would seek cost recovery for implementing actual cost pricing. We do not believe cost recovery would be appropriate as actual cost pricing should be reflected through standard processes that the electric IOUs performs that reflect cost savings for ratepayers in moving from estimated cost billing to actual cost billing for mixed-fuel new construction.

Each electric IOU shall file a Tier 2 Advice Letter within 30 days of the effective date of the decision as to how it will implement the Staff Proposal consistent with this decision.

6.2. Reporting requirements

The Phase 3B Scoping Memo sought party comments on the Staff Proposal's recommended annual reporting requirement starting May 1, 2024 — on electric line extension expenditures broken down separately by customer class for both mixed-fuel new construction and all-electric new construction, including (1) total line extension requests from applicant builders, (2) total electric line extension estimated costs (refundable and non-refundable amounts), (3) total electric line extension actual costs (refundable and non-refundable amounts), and (4) total subsidies (allowances, refunds, and discounts).

The Joint Parties support the Staff Proposal, while the three large electric IOUs make recommendations to modify the requirements.

6.2.1. Summary of Opening Comments and Reply Comments

PG&E does not oppose the proposed reporting requirements, but it recommends moving the start date to July 1, 2024, "so that they are coordinated with the elimination of gas line extension allowances, discounts and refunds set out in D.22-09-026."[83] PG&E states that they currently do not distinguish applicants as all-electric and mixed-fuel.[84] PG&E states that the reporting requirement will require reprogramming their "Your Projects" intake portal where gas and electric requests are not necessarily treated as one project.[85]

SCE states that it can report all line extensions by customer class for Items 1-2 and Item 4 in May of each year starting May 1, 2024.[86] It states that it is not currently able to separate "mixed-fuel new construction line extensions from all-electric new construction line extension projects."[87] SCE states that it cannot also separate new construction projects from those that are having new load being added to an existing meter.[88] For Item 3, SCE requests the Commission to allow one year after the final decision to implement temporary system-wide processes, and two years to finish the complete system updates.[89] SCE then notes that they would take steps to recover costs from implementing Item 3.[90] SCE also recommends that the Commission clarify the reporting periods to include data for the previous calendar year (*e.g.*, for May 1, 2024, reporting would be from January 1, 2023, through December 31, 2023).[91]

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83 PG&E Opening Comments at 9.

84 *Ibid.*

85 *Ibid.*

86 SCE Opening Comments at 6.

87 *Ibid.*

88 *Ibid.*

89 *Id.* at 6-7.

90 *Ibid.*

91 *Ibid.*

With reservations about initiating annual reporting starting on May 1, 2024, and with the proposed changes taking effect on July 1, 2024,[92] SDG&E states that it would not have any new information to include in the report.[93] SDG&E recommends that reporting takes place one year from the date the changes take effect.[94]

6.2.2. Discussion

The decision adopts the Staff Proposal's recommendation to require annual reports for the previous calendar year from the large electric IOUs, with modifications.

No party objected to the reporting requirements, but offered proposed modifications to the timing of reporting and stated their respective challenges in generating the report on the limited data they currently collect from the applicants. As we noted in Res. G3598, gas utilities already track the difference between actual and estimated costs through rate recovery within GRC filings. The process should not significantly differ on the electric side of the utility business. While it may take some time to implement the process, we do not see any merit in the utilities' argument that it requires substantial system upgrades. However, it is reasonable to allow more time to implement these process changes. These new annual reporting requirements for electric IOUs will ensure consistent adherence to rules and maintain transparency.

Based on the comments received, we adopt the Staff Proposal's reporting requirements, with the following modifications:

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[92] SDG&E Opening Comments at 7.

[93] *Ibid.*

[94] *Ibid.*

I. On May 1, 2024, and May 1, 2025, the large electric IOUs are required to report on electric line extension expenditures[95] in the prior calendar year (*i.e.*, January 1, 2023, through December 31, 2023, for the report to be submitted by May 1, 2024, and January 1, 2024, through December 31, 2024, for the report to be submitted by May 1, 2025) broken down separately by customer class for mixed-fuel new construction, all-electric new construction, and upgrades to existing facilities, including (1) total electric line extension requests from applicant builders, (2) total electric line extension estimated costs to the builder, as determined by the IOU (both refundable and non-refundable amounts), and (3) total subsidies (*i.e.*, allowances, refunds, and discounts) broken down by exempted and non-exempted projects. Data shall be disaggregated by quarter. This report shall be submitted as a Tier 1 Advice Letter. Upon approval by staff via a disposition letter, and consistent with Res. E-5105, each IOU shall maintain a copy of the report on a publicly accessible website and share the Uniform Resource Locator (URL) with the R.19-01-011 service list and to the CEC via email. Energy Division staff is directed to post the URL for each IOU report on the Commission's building decarbonization website after approving the reports.

II. On May 1, 2026, and thereafter on May 1 of each year, the large electric IOUs are required to report on electric line extension expenditures broken down separately by customer class for mixed-fuel new construction, all-electric new construction, and retrofits to existing premises including (1) total line extension requests from applicant builders, (2) total electric line extension estimated costs to the builder, as determined by the IOU (both refundable and non-refundable amounts), (3) total electric line extension actual costs (refundable and non-refundable

[95] Expenditures are the costs associated with the extension (or upgrade) of distribution mains and service lines under Electric Tariff Rule 15 and Electric Tariff Rule 16. This includes all costs incurred by the utility, which applicant builders must pay to facilitate interconnection.

> amounts), and (4) total subsidies (*i.e.*, allowances, refunds, and discounts) broken down by exempted and non-exempted projects. Data shall be disaggregated by quarter. This report shall be submitted as a Tier 1 Advice Letter. Upon approval by staff, and consistent with Res. E-5105, each IOU shall maintain a copy of the report on a publicly accessible website and serve the URL link on the R.19-01-011 service list and provide it to the CEC via email. Energy Division staff is directed to post the URL for each IOU report on the Commission's building decarbonization website after approving the reports.

After reviewing the comments from the three electric IOUs, and as seen above, we are adopting the Staff Proposal's recommendation, with the above-identified modifications, to incorporate reporting on actual cost billing data starting on May 1, 2026, for the 2025 calendar year after pricing on actuals begins January 1, 2025.

7. Exemptions from Elimination of Electric Line Extension Subsidies for Non-Residential Mixed-Fuel New Construction

The Phase 3B Scoping Memo directed the parties to file comments on whether applicant builders of mixed-fuel new construction projects should be exempt from any potential elimination of electric line extension subsidies.

The Staff Proposal recommends exempting any mixed-fuel new construction project from the recommended electric line subsidy elimination if granted an exemption from the gas line subsidy elimination.

7.1. Summary of Opening Comments and Reply Comments

The Joint Parties agree with the Staff Proposal and present further criteria to consider. The Joint Parties cite D.22-09-026 where the Commission established criteria for specific, unique non-residential projects that were exempt from elimination of subsidies. The Joint Parties state that in addition to the criteria for exemption established in D.22-09-026, the Commission should also require that projects must also not increase local air pollution emissions.

PG&E and SCE agree with the Staff Proposal's recommendation. In their respective comments they state that it is reasonable and consistent to exempt from the elimination of electric line extension subsidies any mixed-fuel non-residential building projects that receive an exemption from the prohibition on gas line extension subsidies through the process established in D.22-09-026 (OP 3).

PG&E states that the current exemption process is lengthy and may discourage development in California.[96] Specifically, PG&E asks the Commission to re-consider a list of exempted building types rather than the application process that was outlined in D.22-09-026.[97]

SDG&E provides its comments in context of its recommendation to eliminate all line extension subsidies and allowances for new construction and existing buildings. SDG&E states that it does not support maintaining for gas or expanding to electric the exemptions granted when gas allowances were eliminated in D.22-09-026.

In its reply comments, SoCalGas states that no party argued for elimination of electric line subsidies if the building project is granted an exemption by the Commission from the elimination of gas line subsidies. SoCalGas states that it supports the inclusion of electric line extension subsidies

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[96] PG&E Opening Comments at 10.

[97] That list is comprised of the following project types: renewable natural gas or hydrogen (piped and virtual); compressed natural gas, liquid natural gas, and hydrogen stations; electric generation projects; backup generation projects; facility conversions (facilities witching from dirtier fuels); large commercial customers; industrial customers; transmission customers; and critical load. (PG&E Opening Comments at 11.)

in mixed-fuel new construction projects if the Commission grants an exemption for gas line extension subsidies, as directed in D.22-09-026. SoCalGas argues that removing the electric line extension subsidy when the project demonstrates financial and environmental benefits would be counterproductive to the goal of decarbonization. Opposing the Joint Parties' comments, SoCalGas states that including an additional criterion to what was enumerated in D.22-09-026 is outside of the scope of Phase 3B. It also states that the Commission previously decided that the additional criterion requested by the Joint Parties was not necessary, when recommended in Phase 3 of the proceeding.

7.2. Discussion

The decision adopts the same criteria established in D.22-09-026 for receiving non-residential electric-line extension subsidies.

If a project is allowed non-residential gas line subsidies per D.22-09-026, it may also be eligible for electric-line extension subsidy. This decision allows applicant builders of non-residential mixed-fuel new construction projects to be exempt from the elimination of electric line extension subsidies if the Commission grants the building project an exemption from the elimination of gas line extension subsidies. Therefore, if the Commission approves the application for exemption under D.22-09-026, the same application is exempt from elimination of electric line subsidies in the mixed-fuel new construction. Phasing out subsidies can have a significant strategic impact on building decarbonization efforts. This decision ensures that we eliminate subsidies in a gradual manner.

We decline to adopt the additional criteria that PG&E suggested. It is premature to consider additional criteria because, consistent with D.22-09-026, the "[gas] IOUs may propose potential categorical exemptions in their annual filing after two application cycles.[98] Thus, gas IOUs may propose categorical exemptions that the Commission may consider starting with the July 1, 2025 application cycle. Therefore, this decision does not grant additional exemptions.

Energy Division may establish a process to track exemptions granted for non-residential mixed-fuel new construction projects once the IOUs file applications per D.22-09-026.

8. Statutory Deadline of the Proceeding

The current statutory deadline for this proceeding is January 28, 2024. However, more issues must be examined in this proceeding. Specifically, as noted in D.22-09-026, after two application cycles, the utilities may propose potential categorical exemptions in their annual filing on July 1 of every year starting in 2023. This means that starting July 1, 2025, gas IOUs may propose potential categorical exemptions in their annual filings. Those applications will be filed after the January 31, 2024 statutory deadline. Those filings may affect exemptions for mixed-fuel new construction projects. To fully review those applications and address any related matters resulting from a revised staff proposal, it is reasonable and necessary to extend the statutory deadline for the proceeding.

This decision, therefore, extends the statutory deadline of this proceeding to December 31, 2025.

9. Comments on Proposed Decision

The proposed decision of Commissioner Darcie L. Houck in this matter was mailed to the parties in accordance with Pub. Util. Code Section 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice

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[98] D.22-09-026 at 58.

and Procedure (Rules). Comments were filed on _______________, and reply comments were filed on _______________ by _______________.

10. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Manisha Lakhanpal and Alberto T. Rosas are the assigned ALJs in this proceeding.

Findings of Fact

1. In D.22-09-026, the Commission eliminated gas pipeline extension allowances, refunds, and discounts for all new applications submitted on or after July 1, 2023, for all customers in all customer classes unless otherwise exempted.

2. On July 26, 2023, the Phase 3B Scoping Memo was issued in this proceeding; it included the Staff Proposal, with recommendations, as an attachment and directed the parties to file comments on the Staff Proposal.

3. CEC defines a Newly Constructed Building as a building that has never been used or occupied for any purpose.

4. Electric line extension subsidies in mixed-fuel new construction (a) aligns with the Commission's policy goal to adopt policies aimed at reducing GHG emissions associated with energy use in buildings while also furthering the State of California's goals of reducing economy wide greenhouse gas emissions to 40 percent below 1990 levels by 2030 and achieving carbon neutrality by 2045 or sooner, and (b) advances the Commission's building electrification policy framework.

5. Parties' varied comments on exemptions, especially for projects currently in the development process, underscore the need for a balanced approach that considers both environmental and economic implications.

6. PG&E's proposal to end all new construction line extension subsidies to focus exclusively on retrofits is premature.

7. To consider establishing "common facility costs" treatment policy frameworks concurrently with the Staff Proposal would delay the adoption of the elimination of electric line extension subsidies for new mixed-fuel construction to July 1, 2025, effective date.

8. Until Title 24 Building Code requires new construction to be built all-electric only, mixed fuel is still an option.

9. Maintaining electric line extension subsidies for all-electric new construction promotes zero-emission building design.

10. It is reasonable to continue subsidies for ongoing mixed-fuel construction projects currently in the development process, and adopting SCE's three criteria, with modifications, to allow fair implementation of new rules.

11. Per Pub. Util. Code Section 783(d), there must be advance public notice, of at least six months, before the new rules (adopted by this decision) become effective July 1 of the following year.

12. The Staff Proposal does not propose any change to reach codes.

13. Line-extension allowances and services of new home builders are typically not utilized by low-income customers.

14. Existing financial public funding sources support commercial and affordable housing and low-income customers, eliminating the need of any special carve-outs.

15. It is reasonable for the Commission to base final costs of the electric line extension project on actual costs instead of estimated costs, in alignment with Res. G-3598.

16. Refunding the applicant if the estimated cost exceeds the final actual cost or requiring the applicant to pay the extra amount if the final actual cost is higher than the estimated cost aligns with Res. G-3598.

17. As gas utilities track cost differences between actual and estimated costs via GRC filings, electric utilities similarly can use that model without major system upgrades.

18. Reconciling and reporting actual costs can be resource-intensive, requiring additional time for implementing process changes.

19. These new annual reporting requirements for electric IOUs will help ensure consistent adherence to the new rules and maintain transparency.

20. More information is needed, before setting additional criterion for exemption of gas line extension subsidies as outlined in D.22-09-026.

21. According to D.22-09-026, the gas IOUs may propose potential categorical exemptions in their annual filing starting July 1, 2025.

22. If a non-residential gas line extension project is granted an exemption from subsidy elimination under D.22-09-026, it is reasonable to also exempt the project from any removal of subsidies for non-residential electric line extension projects in mixed-fuel new construction projects.

23. The statutory deadline for the proceeding is January 31, 2024.

Conclusions of Law

1. The Staff Proposal recommendations should be approved and adopted, as modified in this decision.

2. The Commission should eliminate electric line extension subsidies for all customer classes for mixed-fuel new construction projects.

3. It is reasonable for ongoing mixed-fuel new construction projects to receive electric line extension subsidies if they meet all of the following criteria: (1) invoice paid by July 1, 2024; (2) Electric Tariff Rule 15 contract signed and received by the IOU by July 1, 2024; and (3) projects completed within 12 months of July 1, 2024.

4. The changes adopted in this decision to the electric line extension rules comply with the statutory requirements of Pub. Util. Code Sections 783(b)-(d).

5. At the completion of new mixed-fuel construction, builders and applicants should be responsible for paying the final actual costs of any necessary electric line extension, rather than estimated costs.

6. Ratepayers should not bear additional financial burdens when the actual costs exceed the estimated costs.

7. It is reasonable to set annual reporting requirements for electric IOUs on electric line extension expenditures for the previous calendar year broken down by customer class for mixed-fuel new construction, all-electric new construction, and retrofits to existing premises.

8. It is reasonable to stagger the implementation dates for annual reports to allow process changes.

9. It is reasonable for electric IOUs to receive exemption on the elimination of electric line extension subsidies for non-residential mixed-fuel new construction projects consistent with exemption criteria adopted in D.22-09-026.

10. It is a reasonable and balanced approach to provide exemptions to mixed-fuel new construction projects currently in the development process.

11. Additional criterion for exemption of gas line extension subsidies should be reviewed after the IOUs' annual filing on July 1, 2025.

12. A gas line extension project for non-residential use, which is exempted under D.22-09-026, should also be exempted from the electricity line extension elimination as a mixed fuel new construction project.

13. Each electric IOU should submit a Tier 2 Advice Letter to revise their electric line extension rules to eliminate electric line extension subsidies in conformance with this decision.

14. The proceedings should remain open.
15. The statutory deadline should be extended to December 31, 2025.

O R D E R

IT IS ORDERED that:

1. The recommendations set forth in the Energy Division's Phase 3B Staff Proposal which was circulated for comment in this proceeding with the July 26, 2023 Amended Scoping Memo and Ruling (Phase 3B Scoping Memo), are adopted, as modified in this decision and as ordered in the Ordering Paragraphs below.

2. Electric line extension allowances, the 10-year refundable payment option, and the 50 percent discount option in current investor-owned utility electric line extension rules are eliminated for mixed-fuel new construction, as provided below:

   a. Electric Line Extension Allowances: All allowances set forth in utilities' Electric Tariff Rule 15 and Electric Tariff Rule 16 for Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company are removed for mixed-fuel new construction effective July 1, 2024;

   b. 10-Year Refundable Payment Option: All refunds set forth in utilities' Electric Tariff Rule 15 and Electric Tariff Rule 16 are removed for mixed-fuel new construction effective July 1, 2024; and

   c. 50 Percent Discount Option: All discounts set forth in utilities' Electric Tariff Rule 15 and Electric Tariff Rule 16 are removed for mixed-fuel new construction effective July 1, 2024.

3. Effective January 1, 2025, all mixed-fuel new construction projects will pay, at the end of project completion, the final actual costs of an electric line extension instead of estimated costs.

4. The same exemption criteria set by the California Public Utilities Commission to grant subsidies for gas line extension projects, as outlined in Decision 22-09-026, which means, if a non-residential gas line extension project is granted exemption from subsidy elimination as to the gas line extension, then the project is also exempt from any removal of subsidies for non-residential electric line extension projects in mixed-fuel new construction projects.

5. An ongoing mixed-fuel new construction project that is currently in the development process is authorized to receive subsidies if it meets all the criteria below. If the criteria below are not met, then the electric utility will invoice or re-invoice the project without subsidies and at the actual cost:

   a. The invoice has been paid to the electric investor-owned utility as of July 1, 2024;
   b. The electric utility contract was signed and received by the electric utility as of July 1, 2024; and
   c. The project(s) is field complete/energized no later than 12 months after July 1, 2024.

6. All gas line extension projects for non-residential construction projects exempted under Decision 22-09-026 are authorized to be exempt from electricity line extension elimination as mixed fuel new construction project.

7. Within 30 days of the effective date of this order, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall each submit a Tier 2 Advice Letter to revise tariffs for their respective electric line extension rules in compliance with rules adopted in Ordering Paragraphs 1-6 of this decision.

8. Every May 1 of each year beginning in 2024, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall each submit a Tier 1 Advice Letter that reports on the electric line

extension expenditures for the previous calendar year, broken down by customer class for mixed-fuel new construction, all-electric new construction, and retrofits to existing premises as described below.

a. On May 1, 2024, and May 1, 2025, the large electric investor-owned utilities (IOUs) are required to report on electric line extension expenditures in the prior calendar year (*i.e.*, January 1, 2023, through December 31, 2023, for the report to be submitted by May 1, 2024, and January 1, 2024, through December 31, 2024, for the report to be submitted by May 1, 2025) broken down separately by customer class for mixed-fuel new construction, all-electric new construction, and upgrades to existing facilities, including (1) total electric line extension requests from applicant builders, (2) total electric line extension estimated costs to the builder, as determined by the IOU (both refundable and non-refundable amounts), and (3) total subsidies (*i.e.*, allowances, refunds, and discounts) broken down by exempted and non-exempted projects, disaggregated by quarter;

b. On May 1, 2026, and thereafter on May 1 of each year, the large electric IOUs are required to report on electric line extension expenditures broken down separately by customer class for mixed-fuel new construction, all-electric new construction, and retrofits to existing premises including (1) total line extension requests from applicant builders, (2) total electric line extension estimated costs to the builder, as determined by the IOU (both refundable and non-refundable amounts), (3) total electric line extension actual costs (refundable and non-refundable amounts), and (4) total subsidies (*i.e.*, allowances, refunds, and discounts) broken down by exempted and non-exempted projects; and

c. Upon approval by staff, and consistent with Resolution E-5105, each IOU shall maintain a copy of the report on a publicly accessible website and serve the Uniform Resource Locator (URL) link on the

Rulemaking 19-01-011 service list and provide it to the California Energy Commission via email. After approving the reports, Energy Division staff is directed to post the URL for each IOU report on the California Public Utilities Commission building decarbonization website.

9. The proceeding remains open.

10. The statutory deadline of this proceeding is extended to December 31, 2025.

This order is effective today.

Dated ____________________, at San Francisco, California.