



COM/KDL/jnf 10/16/2025

FILED

10/16/25

12:41 PM

R2409012

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to
Establish Policies, Processes, and
Rules to Ensure Safe and Reliable Gas
Systems in California and Perform
Long-Term Gas System Planning.

Rulemaking 24-09-012

**SECOND AMENDED ASSIGNED COMMISSIONER'S SCOPING
MEMO AND RULING REQUESTING COMMENTS ON PILOT PROGRAM**

This Second Amended Assigned Commissioner's Scoping Memo and Ruling (Second Amended Scoping Memo) modifies the Scoping Memo and Ruling issued on January 31, 2025 (January 31 Scoping Memo), and the amendment to the Scoping Memo and Ruling issued on April 21, 2025 (April 21 Scoping Memo). Specifically, this Second Amended Scoping Memo incorporates Senate Bill (SB) 1221 (Min, Chapter 602, Statutes of 2024) activities for the establishment of a program to facilitate the cost-effective decarbonization of priority decarbonization zones through pilot projects (pilot program) into the scope of this proceeding.

This Second Amended Scoping Memo also updates the proceeding's schedule to include the pilot program and suspend consideration of Phases 1 and 2 until Q3 of 2026. All other events, dates, and determinations from the January 31 and April 21 Scoping Memos remain in effect and unchanged.

Finally, Appendix A to this Second Amended Scoping Memo invites parties to file and serve comments on questions related to the pilot program.

Parties may file and serve opening comments by December 3, 2025, and reply comments by December 17, 2025.

1. Procedural Background

Senate Bill (SB) 1221 added Article 11 (Sections 660-666) to the Public Utilities (Pub. Util.) Code,¹ which requires the Commission to, among other things:

- Receive maps from gas corporations that include gas distribution line replacement projects and other identifiers per Section 661 and designate priority neighborhood decarbonization zones per Section 662;
- By July 1, 2026, establish a pilot program to facilitate the cost-effective decarbonization of priority neighborhood decarbonization zones, up to 30 pilot projects across the state and no more than 1 percent of each gas corporation's customers, that rely on zero-emission alternatives per Section 663; and
- Starting March 1, 2026, submit an annual progress report to the Legislature on the pilot program's findings.

In addition, SB 1221 adds Section 451.9, which provides additional direction for the implementation of Article 11:

- Allow gas corporations to cease providing service in an area where a pilot project has been implemented, if the Commission determines that adequate substitute energy service is reasonably available to affected customers;
- Adopt guidelines to ensure that rates for substitute energy service are just and reasonable; and
- Determine the just and reasonable recovery of undepreciated costs of any gas plant or asset, including the period over which the undepreciated costs are recovered to

¹ All further references to "Section" are to sections of the Pub. Util. Code unless otherwise noted.

minimize impacts to remaining gas distribution system customers.

Pub. Util. Code Section 660(j) defines “zero-emission alternatives” as methods of providing gas customers with suitable substitute energy service that does not require new investment in gas distribution lines, including, but not limited to, electrification of gas end uses and energy efficiency, thermal energy networks, and demand flexibility measures to alter energy needs.

On January 31, 2025, I divided the scope of issues into three phases, which I scheduled for concurrent examination: 1) Phase 1, Interim Actions; 2) Phase 2, Long-Term Gas Transition Planning; and 3) Phase 3, SB 1221 Implementation. I further scoped Phase 3, SB 1221 implementation issues in two tracks: Track 1, SB 1221 Mapping Requirements and Track 2, SB 1221 Priority Neighborhood Decarbonization Zones. On April 21, 2025, I amended the scope to include consideration of utilities’ cost recovery for activities related to SB 1221 mapping compliance.

This Second Amended Scoping Memo will incorporate and schedule SB 1221’s requirements for a new pilot program as Phase 3, Tracks 3 and 4; amend the schedule for Phase 3, Track 2; and suspend the schedule for Phases 1 and 2 until Q3 of 2026. The scope will also consider program reporting and evaluation requirements for the electric and gas corporations, and a process for lessons learned from the pilots to inform future zonal decarbonization efforts.

2. SB 1221’s Pilot Program in the Context of Long-Term Gas Planning

The Order Instituting Rulemaking notes that a potential risk of the gas transition is the prospect of upward pressure in gas system costs and rates as gas demand decreases, and a need to manage and balance these and other risks as

part of the gas transition.² The SB 1221 pilots present an important opportunity to advance these goals in a way that achieves gas system costs savings, avoiding cost increases to non-participating customers.

SB 1221 presents a number of broad, gas system-wide questions that are appropriate for the Long-Term Gas Proceeding to consider at the outset in order to facilitate a timely initiation of the program. At the same time, review of specific 1221 pilot proposals themselves requires fact specific analysis that is more appropriate to the pilot application process. My goal with this amended scope of the Long-Term Gas Proceeding is to build a record that will support the development of the necessary upfront guidance to establish the SB 1221 pilot program and inform the first round of submissions, which would be submitted by application subject to requirements established in this proceeding.

3. Updated Proceeding Issues

I updated Phase 3 of this proceeding's scope in three ways. First, I added Track 3 to include the issues necessary to establish the SB 1221 pilot program, and inform the first round of submissions. Second, I added Track 4 to include the remaining issues that are necessary to address in this proceeding to implement the SB 1221 pilot program. Third, I moved three pilot issues from Track 2 to Track 3.

The Phase 3 issues are amended and restated as follows:

Track 2: SB 1221 Priority Neighborhood Decarbonization Zones

11. How should the Commission comply with the legislative requirement to designate "priority neighborhood decarbonization zones"?
 - a. What additional factors, if any, should the Commission consider in designating the zones, beyond the factors required by Pub. Util. Code Section 662(a)(1)-(4)?

² *Order Instituting Rulemaking* at 4-5.

- b. How should the Commission interpret and/or define the requirements of Section 662?
- c. How should the designation of priority neighborhood decarbonization zones be conducted to best support the implementation of decarbonization projects?
- d. How, and how often, should the Commission update the priority neighborhood decarbonization zones?

Track 3: SB 1221 Zonal Decarbonization Pilot Program Guidance

- 12. How should the Commission implement Pub. Util. Code 663(b)(1), which directs the Commission to adopt a process for gas corporations to submit pilot projects? What process should the Commission set for gas corporations to submit applications? If the Commission was to require that applications be batched and submitted at specific intervals, should the Commission allow for quarterly, biannual, or annual submissions?
- 13. What guidance should the Commission establish in this proceeding regarding the “criteria and methodology for determining the cost-effectiveness of a zero-emission alternative as compared to replacement, repair, or continued operation of the affected asset of the gas system,” as required by Pub. Util. Code Section 663(b)(2)?
 - a. Pub. Util. Code Section 663(b)(2) states “nonenergy benefits may be considered in prioritizing pilot projects but shall not be used to calculate cost-effectiveness.” How should gas corporations consider nonenergy benefits when prioritizing projects?
 - b. Should the Commission require additional cost-effectiveness demonstrations for pilot projects in the first round of applications? If so, which ones and how should they be considered?
 - c. How should the Commission determine “the total cost that would have otherwise occurred” but for the implementation of the zero-emission alternative, for determining cost-effectiveness?
- 14. How should gas corporations demonstrate that pilot proposals ensure that a substitute for gas service is affordable, adequate, efficient, and reasonable, for participating customers, including participating low-income customers as required by Pub. Util. Code Sections 451.9 and 663(b)(3)?

15. What information should the gas corporations provide in their applications to demonstrate communication and collaboration with local governments and community organizations that have expressed interest in providing support, contractors, and tenants, including master-metered per Pub. Util. Code Section 663(b)(4) and Section 663(b)(5)?
16. How should gas corporations demonstrate a preference for projects that provide prevailing wages and use high-road jobs programs per Pub. Util. Code Section 663(b)(6)? Should the Commission consider definitions of high road job programs in other state laws to implement this provision?³
17. How should gas corporations demonstrate coordination and collaboration with electrical corporations, publicly owned electric utilities, load serving entities, local governments, and, if feasible, core transport agents affected by a pilot project, per Pub. Util. Code Section 663(b)(7)?
18. Should the Commission provide guidance to gas corporations regarding the types or categories of costs that will be considered “related to implementation of the pilot programs” or “costs to implement a zero-emission alternative” and therefore eligible for cost recovery if deemed just and reasonable, per Pub. Util. Code Section 663(b)(8) and 663(b)(9)?
19. What cost recovery process(es), provision(s), and/or mechanism(s) should the Commission authorize, if any ratepayer funds are approved, for a zonal decarbonization pilot project implemented per Pub. Util. Code Section 663(8) and Section 663(b)(9)?
20. Should the Commission provide guidance or criteria for gas corporations to request a rate of return and recovery period for costs eligible for recovery per Pub. Util. Code Section 663(b)(9)?
21. Should the Commission determine criteria or processes for electrical corporations to seek recovery of costs they incur related to implementation of pilot programs?

³ See, e.g., Cal. Unemp. Ins. Code § 14005(r).

Track 4: Continued Implementation of SB 1221 Zonal Decarbonization Pilot Program

22. Based on the experience of the first round or rounds of SB 1221 applications, what updates to Commission-adopted guidance or informational requirements for SB 1221 applications should the Commission consider to improve SB1221 implementation? Should the Commission consider moving to an advice letter process for SB 1221 pilot project applications?
23. What additional guidance, if any, should the Commission provide regarding Section 663(a) requirements?
24. What guidance should the Commission provide related to how a zero-emission alternative may be deemed an adequate substitute for gas service to inform potential future determinations related to obligation to serve per Pub. Util. Code Sections 451.9 and 663(c)?
25. What guidelines should the Commission provide regarding the Pub. Util. Code Section 663(d) prohibition on establishing pilot projects on or after January 1, 2030?
 - a. How should the Commission define a project as “established” for the purposes of the sunset of SB 1221 directives per Pub. Util Code Section 663(d)?
26. What requirements should the Commission establish to ensure that the pilot program provides lessons for assisting the state’s climate change goals, as required by Pub. Util. Code Section 664, as well to inform future efforts for gas distribution system decommissioning and electrification?
 - a. What reporting and evaluation requirements should the Commission require for pilot projects and the pilot program?
 - b. What process should the Commission establish for pilot evaluation reports to inform future decarbonization efforts, as required by Pub. Util. Code Section 664?

4. Schedule

This Second Amended Scoping Memo suspends consideration of Phases 1 and 2 until Q3 of 2026 and revises the proceeding schedule to incorporate Phase 3, Tracks 3 and 4 issues, as follows:

	Event	Date
Phase 1: Interim Actions	Proposed Decision(s)	TBD but no earlier than Q3 of 2026
	Final Decision(s)	No earlier than 30 days after the Proposed Decision has been issued
Phase 2: Long-Term Gas Transition Planning	<u>Track 1</u> : Consideration of Foundational Data and Analytics issues	Beginning in Q3 2026
	<u>Track 2</u> : Consideration of Long-Term Gas Planning Scenario issues	Beginning in Q3 2026
	<u>Track 2</u> : Proposed Decision(s)	TBD
	<u>Track 2</u> : Final Decision(s)	TBD
Phase 3: SB 1221 Requirements	<u>Track 2</u> : Gas Utilities respond to Data Ruling	November 5, 2025
	<u>Track 3</u> : Opening comments on Pilot Program questions in Appendix A	December 3, 2025
	<u>Track 3</u> : Reply comments on Pilot Program questions in Appendix A	December 17, 2025
	<u>Track 3</u> : Proposed decision	May 2026
	<u>Track 3</u> : Commission decision	June 2026
	<u>Track 4</u> : Consideration of Remaining SB 1221 Issues	Beginning in Q2 2027

5. Questions for Party Comments

Appendix A contains a list of questions related to the establishment of the pilot program. Parties may file and serve opening comments no later than December 3, 2025, and reply comments no later than December 17, 2025.

IT IS RULED that:

1. The proceeding scope for Phase 3 is amended and restated by this Second Amended Scoping Ruling.
2. The proceeding schedule included in the January 31 Scoping Ruling and April 21 Scoping Ruling is updated and adopted as set forth in this Second Amended Scoping Ruling to suspend consideration of Phases 1 and 2 until Q3 of 2026 and to schedule events for Phase 3.
3. All other issues, determinations, events, and dates included and adopted in the January 31 Scoping Ruling and April 21 Scoping Ruling shall remain in effect and unchanged.
4. Parties may file and serve comments on the questions in Appendix A to this Second Amended Scoping Ruling no later than December 3, 2025, and reply comments no later than December 17, 2025.

This order is effective today.

Dated October 16, 2025, at San Francisco, California

/s/ KAREN DOUGLAS

Karen Douglas
Assigned Commissioner

APPENDIX A
Questions Related To The Pilot Program

Appendix A

Pilot Project Applications

- a. Each gas corporation should group pilot proposals in a single application to facilitate review and consideration of the proposal. After the initial application, subsequent applications should be submitted periodically, every 12 months, until the statute sunsets. Considering this approach:
 1. When should gas corporations file applications?
 2. How many rounds of applications should the Commission authorize in a calendar year?
 3. What should be the maximum number pilot projects per batch of applications? Provide justification.
- b. Which gas corporations should be defined as a gas corporation? Which corporations should be required to file pilot project applications?
- c. What information should gas corporations include in each pilot project proposal to ensure adequate assessment?
- d. What qualitative and/or quantitative metrics should gas corporations include in their applications to demonstrate proposed outcomes of pilot projects? Propose up to five metrics and provide justification.
- e. Pursuant to Pub. Util. Code Section 663(b)(7), what steps should gas corporations take to facilitate coordination, collaboration, and information sharing between gas corporations and electrical corporations; local publicly owned electric utilities; load-serving entities; and local governments, including Community Choice Aggregators and Regional Energy Networks?
 1. During the project identification and planning phase?
 2. During the project implementation phase?
- f. What steps should gas corporations take to facilitate engagement, coordination, and collaboration with other potential community partners; relevant contractors or businesses; and, if feasible, core transport agents affected by the pilot projects?
 1. During the project identification and planning phase?
 2. During the project implementation phase?

- g. Pursuant to Pub. Util. Code Section 663(b)(6), how should gas corporations demonstrate a preference for pilot projects that provide prevailing wages and use high-road job programs?

Definition and Identification of Pilot Projects

- h. What should gas corporations consider when identifying and prioritizing potential pilot projects, including the consideration of factors identified in Pub. Util. Code Sections 661, 662, and 663?
 - 1. What types of zero-emission alternatives should qualify for the applications? Provide justification for your recommendation.
- i. What information should gas corporations be required to include in their applications regarding the potential impact of proposed pilots on the electric distribution grid?

Customer Notification

- j. Pub. Util. Code Section 663(b)(4) requires that customer notification “shall include information about the anticipated costs and benefits of the zero-emission alternative offering.” What, if any, additional information should gas corporations, or other relevant entities, provide to customers? Identify which entity should provide the information and when.
- k. How should gas corporations document engagement with customers per Pub. Util. Code Section 663(b)(4)?
 - 1. During the project identification and planning phase?
 - 2. During the project implementation phase?
 - 3. After project completion?
- l. What steps and requirements are necessary to ensure that tenants of master-metered properties affected by a proposed project receive adequate notification and engagement per Pub. Util. Code Section 663(b)(5)?
 - 1. During the project identification and planning phase?
 - 2. During the project implementation phase?
 - 3. After project completion?

Project Costs

- m. What types of costs related to the implementation of the pilot projects should gas corporations be allowed to recover?

- n. Gas corporations may incur certain costs for pilot project development (e.g., preliminary exploration to determine technical feasibility of projects, initial community outreach, proposal development). How should the Commission handle pilot project development costs?
 - 1. What types of costs should be allowed recovery?
 - 2. Should the Commission establish a limit for project development costs?

Cost Recovery Mechanisms

- o. What cost recovery mechanism(s) should the Commission authorize for the pilots? Considerations may include:
 - 1. For pilots funded with ratepayer funds, should the pilots be funded from electric or gas revenues or both? Provide justification and an explanation of how to implement funding recommendations.
 - 2. Should the Commission authorize a single consistent cost-recovery method for all SB 1221 pilots, or would allowing for variations in recovery methods provide advantages and/or learning opportunities? Provide justification and proposed types of recovery mechanisms, along with their applicability.
- p. What rate of return (ROR), if any, is appropriate for gas corporations for their costs to implement zero-emission alternatives per Pub. Util. Code Section 663(b)(9), taking into account Pub. Util. Code Section 663(b)(8)?
- q. What should the recovery period be for pilot project costs deemed eligible for ROR?
- r. In recognition of Section 663(b)(8)'s prohibition against treatment of behind-the-meter (BTM) costs associated with the pilot projects as capital costs that are afforded an ROR, should a new form of regulatory asset treatment be created for gas and/or electric corporations' BTM expenditures necessary to implement zero-emission alternatives? Alternatively, is there an existing form of regulatory asset treatment that could apply? Provide a description and justification for any alternatives to capital cost treatment that the Commission should consider.
- s. What process should the Commission require for accounting of costs covered with non-ratepayer funds? This should include any considerations for reporting and justification that may be required as part of a General Rate Case and related filings.

- t. How should to-the-meter costs related to electrical infrastructure upgrades necessary for implementation of zero-emission alternatives be treated? List the types of costs, applicable tariffs if appropriate, and a description of alternative treatment if proposed. Provide justification.

Cost-effectiveness

- u. Pub. Util. Code 663(b)(2) directs the Commission to establish “[c]riteria and methodology for determining cost-effectiveness of the zero-emission alternative as compared to replacement, repair or continued operation of the affected asset of the gas system. (...) The total cost incurred by the gas corporation for the zero-emission alternative shall be less than the cost that would have otherwise occurred.” Propose an approach for implementation of this directive, considering necessary information to support the Commission’s assessment of pilot project proposals, such as:
 - 1. A definition for the zero-emission alternative cost, including types of costs that should be included in the definition.
 - 2. A definition for the avoided gas system costs (i.e., the cost that would have otherwise occurred), including the types of costs that should be included in the definition.
 - 3. If applicable, an approach for gas utilities to calculate electric costs associated with zero-emission alternatives.
 - 4. Treatment of operations and maintenance (O&M) costs for (i) gas assets, and (ii) the BTM assets.
 - 5. Best practices in gas infrastructure cost estimation that should be considered when defining the avoided cost of the zero-emission alternative. Provide complete references and justification.
 - 6. Consideration of certain program-wide or operating district average costs to simplify the application process.
 - 7. Consideration of whether electric infrastructure upgrade costs that may be triggered due to additional loads from zero-emission alternatives should be considered in determining cost-effectiveness.
 - 8. Pursuant to Pub. Util. Code Section 663(b)(2), “[n]onenergy benefits may be considered in prioritizing pilot projects, but shall not be used to calculate cost-effectiveness.” Propose methods for implementing this directive, including a definition for nonenergy benefits.

(END OF APPENDIX A)