BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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SIERRA CLUB REPLY COMMENTS ON ASSIGNED COMMISSIONER'S RULING ORDERING RESPONSES TO INTERCONNECTION COST QUESTIONS

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In accordance with the Assigned Commissioner's September 23, 2025 Ruling Ordering Responses to Interconnection Cost Questions ("ACR"), Sierra Club submits these reply comments on the ACR.

INTRODUCTION

Sierra Club appreciates that the Commission, in the ACR, is seeking to gather additional data that may explain why utilities have failed to procure biomethane since D.22-02-025's adoption. The ACR states that "staff identified a gap in understanding the interconnection costs, which is a key driver of biomethane project costs"[1] and poses a series of questions specific to interconnection. In these comments, Sierra Club responds to a limited set of issues raised in Opening Comments that pertain to interconnection rate-basing, the Biomethane Monetary Incentive ("BMI") Program, and proposed gas system infrastructure alterations. Sierra Club urges the Commission to reject calls to use ratepayer funds to subsidize interconnection costs given the risk of substantial rate impacts, the dubious climate benefits, and the lack of evidence that subsidies will lead to price declines.

More broadly, Sierra Club urges the Commission to first identify the root causes of the dearth of biomethane procurement and the status of waste diversion in the State before throwing even more ratepayer funds at biomethane projects. Such analysis will allow for a more informed understanding of the appropriate procurement target and other program adjustments to ensure consistency with SB 1440's directive. Indeed, the Commission has yet to properly evaluate whether the biomethane procurement targets are in fact a cost-effective means of reducing short-lived climate pollutant ("SLCPs") when compared to other emissions reduction strategies,

[1] ACR, p. 3.

especially given new information about declining gas demand and biomethane's high costs. Answering these questions is critical to ensure that any future Renewable Gas Standard ("RGS") Program protects ratepayers and delivers actual SLCP-reduction benefits.

In particular, Sierra Club cautions the Commission against treating the biomethane market the same way it would wind and solar energy. Because truly unavoidable waste that could be used to make biomethane is a finite and scarce resource, there are diseconomies of scale to growing the biomethane market. Thus, increased scale in the biomethane market is not a proper indicator of increased environmental benefit or decreased cost. Rather than focus on an expanded supply, the Commission should focus on setting prudent procurement limits in line with current organic waste diversion goals and prioritize the use of this limited resource where it yields the greatest decarbonization benefits.

DISCUSSION

I. The Commission Should Not Exacerbate the Affordability Crisis by Saddling Gas Ratepayers with Interconnection Costs that Are Properly Borne by Project Developers.

Sierra Club disagrees with parties calling for rate-basing of interconnection costs. Pointing to the tax savings that developers would enjoy from rate-basing, these parties ask the Commission to require ratepayers cover the cost of long gas-line extensions.[2] The Commission should reject these proposals. There is no justification for such a cost shift, especially during a time of rapidly rising utility bills. As the Agricultural Energy Consumers Association ("AECA") asserted in its July 2024 comments on the previous ACR, "[r]atepayers should not be burdened with more costs in addition to already expensive biomethane procurement costs."[3] Further, rate-basing could create a perverse incentive for utilities to invest in uneconomic projects.

Some parties claim without support that such rate-basing will reduce the cost of biomethane, thereby generating a "win" for customers.[4] They present no data to support such a conclusion. As Cal Advocates concluded in its 2024 comment on the previous ACR, "[t]here is little to no evidence in the record that these incentives will verifiably lead to lower procurement

[2] Bioenergy Association of California ("BAC"), p. 5; Waga Energy, p. 7; Anaergia, p. 4-5; Coalition for Renewable Natural Gas ("RNG Coalition"), p. 5; Southern California Gas Company ("SoCalGas"), p. 14.
[3] AECA, Opening Comments on June 10, 2024 ACR, p. 6.
[4] RNG Coalition, p. 5.

costs."[5] Cal Advocates further asserted that "[i]t is highly unlikely that such assurances [of price declines] are possible, for several reasons, including:

- the current uncertainty of the market for biomethane;
- the widely varying prices that could result from individual biomethane producers;
- the long lag time between when the investment of interconnection subsidies is made and when the hypothetical savings materialize;
- the unproven claim that subsidies will result in greater producer savings;
- and the general assumption that biomethane prices will naturally decrease across the board once the market is mature."[6]

Critically, as the RNG Coalition has explained, "the Commission should not expect cost declines to the degree seen historically in other renewable technologies, such as solar and wind," and "significant cost declines are not expected" for biomethane production.[7] These facts suggest that subsidizing costly sources of biomethane so that they can participate in the program and expand procurement volumes will not reduce costs or meaningfully accelerate price declines.

Furthermore, when considering rate-basing, the Commission must keep in mind that biomethane procurement authorized under D.22-02-025 would likely cost over $1.5 billion a year.[8] As the Utility Reform Network ("TURN") has aptly observed in prior comments in this proceeding, "[t]his is a program that could result in profound increases to the cost of home heating and hot water for all California residents, and especially those low-income and vulnerable customers who may not be able to replace all their home appliances with electric appliances by 2025 or 2030."[9] When voting on D.22-02-025, Commissioner J. Reynolds

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[5] Cal Advocates Opening Comments on June 10, 2024 ACR, p. 7, https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M536/K637/536637878.PDF.

[6] *Id*. (bulleted emphasis added).

[7] RNG Coalition Opening Comments on June 10, 2024 ACR, p. 7, https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M536/K273/536273401.PDF.

[8] Assuming biomethane costs at the Tier 3 threshold of $26/MMBtu and a Natural Gas Citygate price of $4.34/MMBtu for fossil gas (reflecting past 5-year average Citygate price (https://www.eia.gov/dnav/ng/hist/n3050ca3A.htm) the difference in procurement costs in $21.66/MMBtu. 72.8 BCF of procurement per year = 75,493,600 MMBTU. $21.66/MMBtu * 75,493,600 MMBTU of procurement = $1.635 billion per year. See also See Joint Utilities Opening Comments on Staff Proposal (June 30, 2021) at 3 (estimating $1.5 billion in increased costs by 2030 for a 88 Bcf medium-term target); TURN Opening Comments on Proposed Decision (Jan. 26, 2022), p. 7 (estimating $1.2 billion based on the proposed medium-term target of 88 bcf.).

[9] TURN Opening Comments on Proposed Decision (Jan. 26, 2022), p. 7, https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M444/K123/444123936.PDF.

expressed serious concerns about the costs associated with biomethane procurement targets as well as the equity implications, pointing to the "over one billion dollars per year in additional gas costs for home heating and hot water" and stating that "while…we do not yet know what the exact prices will be for any future biomethane contracts, we know they will be expensive and will warrant further scrutiny by this Commission to protect ratepayers."[10] Given the lack of such scrutiny, the Commission should not authorize rate-basing of interconnection costs.

II. The Commission Should Not Allocate Additional Funding to the BMI Program.

For many of the same reasons described above, ratepayers should not be required to further subsidize interconnections through the BMI program**.** As Cal Advocates has asserted in prior comments, authorizing additional BMI funding undermines the Commission's determination that producers should be responsible for the regulatory costs of their business.[11] Furthermore, ratepayer benefits are not assured as a requirement for producers to receive BMI funding, as Sierra Club, LCJA and CalAdvocates have detailed in prior comments.[12]

III. The Commission Should Not Allow Unjustified "Back Flow" Modifications to the Gas System.

Sierra Club disagrees with Dairy Cares' and the RNG Coalition's recommendation that the Commission consider directing subsidies to the installation of compressors to "back flow" renewable natural gas in the system.[13] They provide no evidence that such support would reduce interconnection costs. Further, the contemplated alteration of the gas system has not been evaluated by the Commission and would likely be expensive and require massive investments in a system that the State is actively working to phase out as California electrifies end uses. The Commission should accordingly dismiss this unjustified proposal.

[10] CPUC, Feb 24, 2022 Voting Meeting at Minute 1:01:11, https://www.adminmonitor.com/ca/cpuc/voting_meeting/20220224/.

[11] Cal Advocates, Opening Comments on June 10, 2024, p. 4, ACR, https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M536/K637/536637878.PDF.

[12] Sierra Club Opening Comments on June 10, 2024 ACR pp. 12-13, https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M536/K273/536273668.PDF; LCJA Opening Comments on June 10, 2024 ACR, p. 6, https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M536/K272/536272776.PDF (calling into question whether the BMI Program is "prudent and reasonable" as required by statute); Cal Advocates, Opening Comments on June 10, 2024 ACR, pp. 6-7, https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M536/K637/536637878.PDF

[13] Dairy Cares, p. 4; RNG Coalition, p. 5.

CONCLUSION

For the reasons stated above, the Commission should not direct additional ratepayer funds to biomethane developers. Indeed, it would be fundamentally irresponsible for the Commission to continue to impose a $1.5 billion-plus annual commodity costs on core customers, and increase that cost by rate-basing interconnection and other infrastructure costs, without first assessing both the program's rate impact when accounting for electrification as well as other more affordable and equitable SLCP-reduction strategies. We urge the Commission to address these fundamental questions and to focus on setting prudent procurement limits that align with current organic waste diversion goals and that yield actual climate benefits.

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Respectfully submitted,

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