BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

FILED
01/13/26
04:02 PM
R2504010

Order Instituting Rulemaking for Oversight of Energy Efficiency Portfolios, Policies, Programs, and Evaluation.	Rulemaking 25-04-010

COMMENTS OF THE PUBLIC ADVOCATES OFFICE ON ADMINISTRATIVE LAW JUDGE'S RULING PROVIDING NOTICE AND OPPORTUNITY TO COMMENT ON STAFF PROPOSAL FOR POLICY ON NATURAL GAS ENERGY EFFICIENCY INCENTIVES

MICHAEL EINHORN
DAVID GIBBS
Attorneys

Public Advocates Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-4852
Email: Michael.Einhorn@cpuc.ca.gov

JAMES AHLSTEDT
OMAR GUTIERREZ TAPIA
ANDY ZHANG
Analysts

Public Advocates Office
California Public Utilities Commission
320 West 4th Street
Los Angeles, CA 90013
Telephone: (415) 703-3196
Email: James.Ahlstedt@cpuc.ca.gov
Email: Omar.GutierrezTapia@cpuc.ca.gov
Email: Andy.Zhang@cpuc.ca.gov

January 13, 2026

I. INTRODUCTION

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits these Comments pursuant to the December 1, 2025 *Administrative Law Judge's Ruling Providing Notice and Opportunity to Comment on Staff Proposal for Policy on Natural Gas Energy Efficiency Incentives* (ALJ Ruling).[1] The ALJ Ruling also provided notice of an Energy Division Staff Proposal (Staff Proposal) addressing recommendations regarding the California Public Utilities Commission's (Commission) policy on ratepayer-funded incentives for natural gas energy efficiency measures.[2] These Comments respond to questions posed by the Staff Proposal and address the issue of ratepayer-funded incentives for natural gas more broadly. By email ruling issued on December 19, 2025, Administrative Law Judge Valerie Kao extended the original deadline to submit comments to January 13, 2026.[3]

Overall, the Commission should direct the following regarding the phase-out of natural gas incentives in the Commissions' energy efficiency programs:

- Use of the Participant Cost Test (PCT) to determine if a gas measure has a Viable Electric Alternative (VEA), rather than the Total Resource Cost (TRC) test.
- The phasing out of all incentives for gas measures with a VEA for both new construction and retrofits.
- Non implementation of new pilots on refrigerant leakage detection and mitigation or on refrigerant disposal.
- Specification of the next steps for VEA policy implementation of population-level and site-level normalized metered energy consumption projects.

---

[1] Rulemaking (R.) 25-04-010, *Administrative Law Judge's Ruling Providing Notice and Opportunity to Comment on Staff Proposal for Policy on Natural Gas Energy Efficiency Incentives*, December 1, 2025 (ALJ Ruling).

[2] R.25-04-010, *Attachment 1- Staff Proposal: Energy Efficiency Natural Gas Incentive Phase-Out Staff Proposal (DRAFT)*, December 1, 2025 (Staff Proposal).

[3] See R.25-04-010, *Administrative Law Judge's Email Ruling Granting Extension of Time to File Comments to December 1, 2025 Ruling*, December 19, 2025.

II. DISCUSSION

A. The Commission should require use of the Participant Cost Test to determine whether a measure has a Viable Electric Alternative.

The Staff Proposal asks "Should VEA measures use TRC or PCT for evaluating cost effectiveness?"[4] The Commission defines a VEA as an electric measure that provides the same end use as a natural gas measure,[5] and the Staff Report states that "[a] VEA exists for a gas EE measure if it serves the same function and provides similar benefits at a similar or lower cost."[6] To determine if an electric measures has similar or lower costs compared to a gas measure for customers, the Staff Proposal considers the use of either the TRC or PCT.[7] Staff analysis finds that if the Commission uses PCT, 29% of applicable measures would have a VEA as compared to only 13% using TRC.[8] As a result, the Staff Proposal recommends the Commission use the PCT to determine if a gas measure has a VEA.[9]

The Commission should use PCT to assess VEAs. As the Commission described in D.23-04-035, it is critical for the State to transition away from ratepayer-funded natural gas incentives in energy efficiency programs as soon as possible to avoid the unnecessary lock-in of long-lived gas appliances. Specifically, D.23-04-035 states that "[t]he imperative of avoiding a costly 'lock-in' of long-lived gas assets warrants a more aggressive approach" to phasing out ratepayer incentives for gas measures.[10] As the Staff

---

[4] Staff Proposal at 34.

[5] Staff Proposal at 9 citing to D.23-04-035, *Decision Addressing Codes and Standards Subprograms and Budgets and Staff Proposal on Reducing Ratepayer-Funded Incentives for Gas Energy Efficiency Measures*, filed in Application (A.) 22-02-005 et al., April 6, 2023 at 16.

[6] Staff Proposal at 7.

[7] Staff Proposal at 7-10.

[8] Staff Proposal at 9.

[9] Staff Proposal at 9; see also Staff Proposal at 1 ("Staff proposes adopting the Participant Cost Test (PCT) as the primary method to determine cost-effectiveness when identifying the VEAs available for a gas EE measure.").

[10] D.23-04-035 at 20 ("Departing from the Staff Proposal's recommendation in one important aspect, we choose not to condition our new construction policy on whether a viable electric alternative exists for a

Proposal estimates, the PCT will allow 16 percentage points more gas measures to have VEAs than with the use of the TRC.[11] Therefore, use of PCT rather than TRC is the "more aggressive" approach that will result in a swifter phase out of costly gas measures. Accordingly, the use of PCT to determine whether a gas measure has a VEA supports the Commission's cost-effective decarbonization policy set forth in D.23-04-035 better than the use of TRC.

The adoption of the PCT to identify VEAs does not release PAs from their Portfolio-level TRC-based cost-effectiveness requirements.[12] As such, Portfolio Administrators (PA) must still consider TRC-based cost-effectiveness requirements while they select which VEA measures to offer. Furthermore, the Commission should instruct PAs to use the PCT to identify VEAs and proceed to offer those measures with the highest TRC possible to meet PA's broader portfolio-level TRC obligations.

For these reasons, the Commission should adopt the PCT as the cost-effectiveness test used to determine if a gas measure has a VEA. Use of the PCT will help avoid locking in emissions from natural gas appliances and will wean off ratepayer-funded incentives for gas measures in energy efficiency programs, consistent with State and Commission goals.[13]

---

given gas measure. The imperative of avoiding a costly "lock-in" of long-lived gas assets warrants a more aggressive approach.")

[11] Staff Proposal at 9-1 (29% of applicable measures would have a VEA as compared to only 13% using TRC).

[12] See D.23-06-055, *Decision Authorizing Energy Efficiency Portfolios for 2024-2027 and Business Plans for 2024-2031*, A.22-02-005 et al., June 29, 2023 at 94-96.

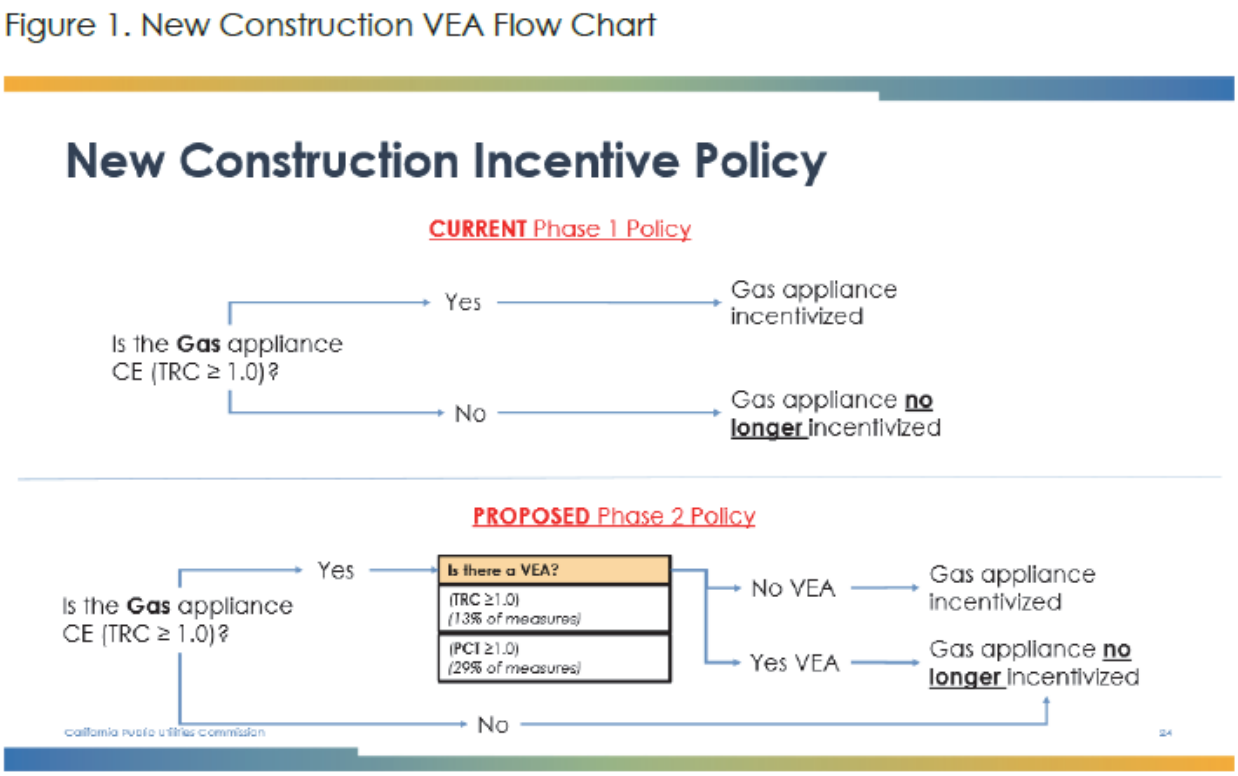
[13] See Cal. Pub. Util. Code Section 454.56(a); Assembly Bill (AB) 3232 (Stats. 2018, Ch. 373) (aims to reduce GHG emissions in the building stock to 40 percent below 1990 levels by 2032); Senate Bill (SB) 1279 (Muratsuchi, 2022) (establishes a policy of the state to achieve net zero GHG emissions by 2045); see also D.23-04-035 (began phase-out of EE ratepayer incentives for new construction gas measures, and laid the groundwork to phase out EE incentives for gas measures in retrofits, refrigerants, and custom projects as a means to move the state closer to meeting GHG emission reduction goals.)

B. The Commission should phase out all gas measures with a VEA for new construction and retrofits.

The Commission should go further than what the Staff Proposal outlines and instead phase out all gas measures which have a VEA for both new construction and retrofit measures. The Staff Proposal offers two proposed pathways for the phase-out of natural gas measures, one for new construction and one for retrofits.[14] For new construction, Staff proposes allowing only gas measures with a TRC above 1.0 **without** a VEA to be incentivized. Figure 1, below, shows the Staff Proposal's new construction incentive flow chart:

[14] Staff Proposal at 20-24.

Figure 1: Staff Proposal New Construction Incentive Flow Chart[15]



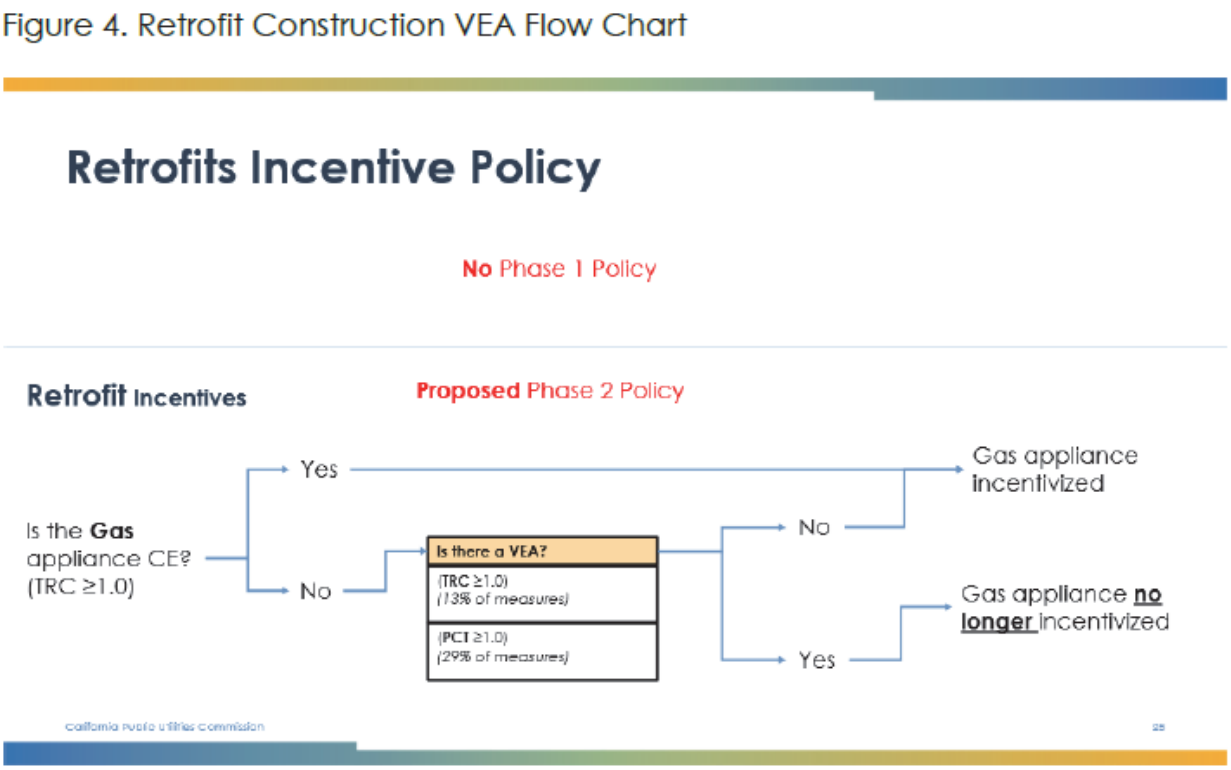
The approach detailed in Figure 1, above, is a step towards the full phase-out of ratepayer funded gas incentives because it expands the current phase out to include gas measures with a TRC above 1.0 so long as the measure has a VEA. Unfortunately, the Staff Proposal's recommendations for retrofit measures reflect a more lenient approach to the phase-out of long-lived gas assets, which will lead to unnecessary stranded gas assets for customers even though the Staff Proposal seeks to avoid such stranded gas assets.[16] As Figure 2 below shows, the Staff Proposal would continue to allow gas measure incentives even if a VEA exists, which undermines the Commission's push to transition

[15] R.25-04-010, *Email Ruling Providing Notice of Corrected Figures in Attachment 1 of December 1, 2025 Ruling*, December 5, 2025.

[16] Staff Proposal at 1, Appendix B *Fuel on Infrastructure Cost WORKING GROUP Recommendations* at 3. And D.23-04-035 at 17-18. "Potential customer benefits of electrification include: … Reduces the impact of stranded gas infrastructure…"

customers away from long-lived gas assets where there are cost-effective electric alternatives.[17]

Figure 2: Staff Proposal Retrofit Incentive Flow Chart[18]



The Staff Proposal acknowledges that installing new long-lived gas appliances may lock low-income customers into costly long-term gas consumption, contrary to the State's decarbonization goals and the Commissions policy to avoid such lock-in for these customers.[19] In its argument for a more "incremental approach" for retrofits, the Staff Proposal states that its retrofit policy will allow PAs to ramp down existing programs and

[17] Staff Proposal at 9 citing to D.23-04-035, *Decision Addressing Codes and Standards Subprograms and Budgets and Staff Proposal on Reducing Ratepayer-Funded Incentives for Gas Energy Efficiency Measures* at 16, filed in Application (A.) 22-02-005 et al. And D.23-04-035 at 20. "This decision generally agrees with Cal Advocates and Sierra Club that adopting a more immediate phase-out of gas efficiency incentives, in new construction, is consistent with the state and Commission's building decarbonization policy to avoid "locking in" long-lived gas assets."

[18] R.25-04-010, *Email Ruling Providing Notice of Corrected Figures in Attachment 1 of December 1, 2025 Ruling*, December 5, 2025.

[19] Staff Proposal at 1, 4. See also D.23-04-035 at 20 (discussing imperative to avoid costly gas lock-in).

restructure their portfolios accordingly.[20] However, the Staff Proposal's approach will also allow more costly long-lived gas assets to be locked in. This will extend PA ramp down periods because fewer customers will be ready for decarbonization and electric efficiency measures. For example, under the Staff Proposal's framework, PAs may continue to offer customers retrofit gas appliance incentives which would lock the customers into the multi-decade long useful life of the gas appliance. As such, PAs' customers can reasonably be expected to wait for the end of the useful life of those gas appliances before electrifying. In effect, the longer the Commission continues to allow gas incentives, the more gas customers there will be, and the longer it will take for the State to ramp down reliance on fossil fuels and ramp up customer electrification. Thus, the Staff Proposal's approach is incongruent with the Commission's "increased focus" on electric readiness.[21]

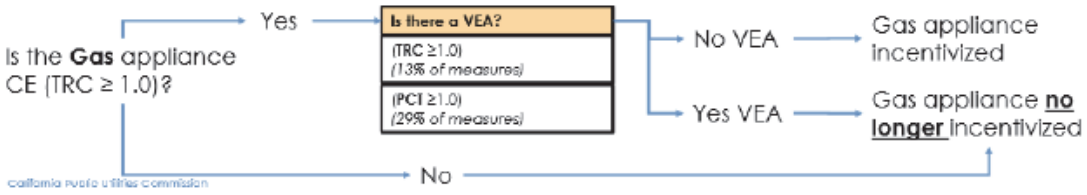
Furthermore, separate incentive policies for new construction and retrofit measures adds an unnecessary level of complexity to the Commission's continued phase out of ratepayer-funded natural gas incentives, which may make it more difficult to implement for PAs. A consistent incentive policy for both new construction and retrofit measures would more efficiently phase out fossil gas incentives and it would simplify and reduce the Commission's burden to oversee VEA policy implementation.

The Commission should adopt a consistent incentive policy for both new construction and retrofits based on the Staff Proposal's new construction policy. Figure 3, below, shows the proposed VEA Incentive Policy the Commission should adopt for all measures.

[20] Staff Proposal at 4.

[21] D.23-04-035 at 20. "Removing incentives for gas efficiency measures is consistent with eliminating subsidies for gas line extensions, as well as with the increased focus on electric readiness detailed in the 2022 Building Energy Efficiency Standards (or Energy Code, as described in the Staff Proposal)."

Figure 3: Cal Advocates' Proposed Flow Chart for Gas Incentives (New Construction and Retrofits)



This unified approach to implementation of VEA policy in energy efficiency is an incremental step towards the future complete phase-out of incentives for natural gas measures that would still allow PAs to offer gas incentives where no VEA exists. As such, this unified policy would eliminate more energy efficiency gas measure incentives than the Staff Proposal and eliminate more stranded gas assets than the Staff Proposal might allow.[22]

It is also important to remember that the Commission's phase out of ratepayer funded natural gas incentives has not occurred in a vacuum; it coincides with the Commission's expanded support for ratepayer-funded electrification. For example, the Commission recently adopted a Pilot Initiative to electrify mobile home parks to help better understand the technical, policy, and legal concerns related to electrification.[23] Pacific Gas and Electric (PG&E) Company's Zonal Equity Electrification Pilot program is another example of a Commission authorized-program which expands the State's push towards electrification.[24] A dual-pronged approach for the phase-out of natural gas incentives and the phase-in of electrification incentives will ensure a coordinated and smooth transition towards the State's zero-emission future. Therefore, the Commission should phase-out incentives for natural gas measures where VEAs exist.

---

[22] Staff Proposal at 1 (noting that the Commission's VEA policy should avoid stranded gas assets that are counter to State's decarbonization goals).

[23] D.25-11-009, Decision Establishing an Electrification Pilot Initiative for Mobilehome Parks, R.19-04-018, Order Instituting Rulemaking to Evaluate the Mobilehome Park Pilot Program and to Adopt Programmatic Modifications, issued November 24, 2025, at 1.

[24] See, PG&E Advice Letter 4963-G/7360-E, effective September 26, 2024, which sought approval of the Third-Party contract to implement the Zonal Equity Electrification Pilot Program which was approved in D.23-06-055.

C. The Commission should not implement new pilots for refrigerant disposal or refrigerant leakage detection and mitigation.

The Staff Proposal identifies several pilots that could address refrigerants in the PAs' EE portfolios, including a refrigerant training pilot, a disposal incentive pilot, and leakage detection pilot.[25] The Commission should not create new pilots for refrigerant disposal because the pilots would be duplicative of existing programs which already require proper disposal of refrigerants.[26] As the Staff proposal acknowledges, refrigerants are used in refrigeration, air conditioning, and chillers which are "common end-use measures with potential VEAs."[27] Therefore, instead of creating pilots for refrigerants alone, the Commission should incorporate refrigerant training and proper disposal in existing programs that implement EE measures with refrigerants.[28]

Instead of a new pilot for refrigerant training, as the Staff Proposal suggests,[29] the PAs should modify existing training programs to address refrigerant recovery and proper disposal.[30] Similarly, the Staff Proposal's suggestion to establish a "monetary baseline" for refrigerant recovery does not require a standalone pilot, as the Commission already has a method for valuing mitigated refrigerants. Specifically, refrigerants have an avoided cost value through the Deemed Refrigerant Avoided Cost Calculator

---

[25] Staff Proposal at 25-26.

[26] Existing law requires proper refrigerant disposal, and HVAC technicians have certifications for proper refrigerant disposal. See California Code of Regulations, Division 3, Chapter 1, Subchapter 10, Article 4, title 17, §95390. ("A person performing any installation, maintenance, service, repair or disposal of a stationary appliance that could reasonably be expected to release refrigerant from the appliance must…must make a recovery attempt using certified refrigerant recovery or recycling equipment for that type of appliance before opening the appliance to atmospheric conditions. Attempts to recover refrigerant must be made even if the person believes that all refrigerant has been removed or has previously leaked from the appliance.")

[27] Staff Proposal at 25.

[28] Refrigerant disposal would be part of any EE program which replaces electric appliances containing refrigerants, such as industrial strategic energy programs or air conditioning retrofit programs. For example, SCE's Industrial Strategic Energy Management program (CEDARS ID: SCE-13-SW-003D) may involve optimizing refrigeration systems which contain refrigerants.

[29] Staff Proposal at 25-26.

[30] For example, PG&E's WE&T Integrated Energy Education & Training program (CEDARS ID: PGE21071) can help programs integrated refrigerant training into curriculum.

(DRACC).[31] When a program implementor replaces an appliance with refrigerants and properly disposes of it, the implementor can then claim additional TSB based on the DRACC value. For example, replacing an air conditioning unit with a heat pump will create an event where refrigerants need to be disposed. When calculating the TSB for this measure, properly disposed refrigerants will increase the claimable TSB, and therefore additional incentives can be offered without lowering cost-effectiveness. Instead of creating a new pilot, the utility can amend existing retrofit programs to include an incentive where applicable.

Therefore, the Commission should not create new pilots for refrigerants and should implement a refrigerant mitigation strategy that is fully incorporated into existing EE programs.

D. The Commission should specify the next steps for VEA policy implementation of population-level and site-level normalized metered energy consumption (NMEC) projects.

Consistent with Commission policy to expand the deployment of NMEC programs,[32] it is critical that the Commission include a pathway to phase-out of natural gas incentives for NMEC projects under its VEA policy. Currently, certain EE programs must use "NMEC, randomized control trials, strategic energy management, or another meter-based method, as appropriate, to measure and report energy savings, unless using these methods is not feasible and/or cost-effective."[33] Despite Commission policy to

---

[31] D.24-08-007, *Decision Adopting Changes to the Avoided Cost Calculator* at 34-35, issued in R.22-11-013.

[32] D.23-06-055 at 37; see also D.23-04-035 at 7.

[33] D.23-06-055 at 41, 124-125 (OP 20). This requirement applies to programs that meet all the following:

- New programs approved by D.23-06-055 launching on or after January 1, 2024, except for third-party programs for which the request for proposals or request for abstracts is issued prior to October 1, 2023;
- Uses a downstream delivery approach;
- Is a resource acquisition retrofit program;
- Is in the residential or commercial sector; and
- Is eligible to use the NMEC rules (according to the NMEC Rulebook).

expand NMEC program deployment, the Staff Proposal does not explicitly reference the phase-out of natural gas EE incentives for NMEC projects.[34]

Even though NMEC projects are a subset of custom projects,[35, 36] the Staff Proposal recommends only a working group to establish technical recommendations by June 1, 2027, on the criteria for which natural gas EE incentives will be phased out for custom projects.[37] This recommendation does not specifically acknowledge the phase-out of natural gas EE incentives for NMEC projects in its VEA policy framework.[38] Consistent with the intent of D.23-04-035,[39] the Commission should adopt timely actionable items to phase-out natural gas incentives for population-level and site-level NMEC projects. Moreover, the Commission should establish distinct timelines to minimize delays in the phase out natural gas incentives for population-level NMEC and site-level NMEC.[40] This approach establishes pathways to phase out natural gas EE incentives for NMEC projects with VEAs to accelerate policy implementation, especially as more EE programs utilize meter-based methodologies.

---

[34] See generally Staff Proposal (no discussion of NMEC).

[35] *White Paper: Energy Efficiency Measure Classification Version 1.0*, December 7, 2020. Available at: Cal+TF+White+Paper+EE+Measure+Classification+Final.pdf

[36] A custom measure or project uses site-specific analysis to determine the customer financial incentive and ex ante energy savings, thus require unique calculations for each project as opposed to Database of Energy Efficiency Resources (DEER) or workpaper values. Similarly, an NMEC project uses existing conditions baseline and leverages pre- and post-intervention energy consumption data observed at the meter to determine energy savings, rather than DEER or measure package values.

[37] Staff Proposal at 24.

[38] NMEC projects are not specifically addressed in the Staff Proposal.

[39] D.23-04-035 at 7. ("It is our intent to eliminate ratepayer-funded incentives for non-exempt, non-cost-effective gas efficiency appliances with a viable electric alternative in the market support segment and in the commercial and residential sectors of the resource acquisition segment for most projects (i.e., retrofits, custom and normalized metered energy consumption) if and when the Commission adopts the Technical Guidance Document").

[40] For instance, the August 2, 2022, EE Natural Gas Incentive Phase Out Staff Proposal (2022 Staff Proposal), bifurcated the proposed phase out of natural gas incentives for population-level NMEC projects and site-level NMEC projects. Specifically, the 2022 Staff Proposal included population-level NMEC projects within the retrofit timeline for phasing out natural gas incentives, while site-level NMEC projects had their own distinct timeline. This distinction acknowledges the possibility to establish distinct incentive phase-out pathways for population-level and site-level NMEC projects given technical feasibility.

E. The Commission should adopt a timeline and preliminary scope of issues for the next phase of Natural Gas Incentive Phase-Out.

Unlike the preliminary timeline included in the 2022 Staff Proposal,[41] the current Staff Proposal lacks a roadmap to address future phases of the VEA policy implementation. The Commission should establish a preliminary timeline and scope issues for future phases of the VEA policy and NMEC projects across portfolio segments and sectors. A preliminary timeline will foster the incremental phase out of natural gas incentives across portfolio segments and sectors in a timely manner. Similarly, a preliminary scope of issues allows stakeholders to prospectively consider subsequent VEA policies and unresolved issues.

A preliminary timeline and scope of issues on the phase out of natural gas incentives is critical because of the updated zero-emission appliance standards proposal by the California Air Resources Board (CARB).[42] In alignment with the 2022 State Strategy for the State Implementation Plan,[43] CARB initially proposed a regulation to eliminate new sales of non-zero-emission space and water heaters for residential and commercial building by 2030.[44] However, CARB now proposes to roll back this regulation and instead adopt incremental limits on the sales of new space and water heater emissive equipment starting 2030.[45] If adopted, natural gas space and water heater retrofits will continue beyond 2030. Absent a ban on the sale of natural gas space and water heaters starting in 2030, the residential and commercial building stock will

---

[41] 2022 Staff Proposal at 6-11.

[42] CARB, *Zero-Emission Space and Water Heater Standards Public Workshop*, December 11, 2025. Workshop slides accessed at: https://ww2.arb.ca.gov/sites/default/files/2025-12/December_2025_Workshop_Slides_2.pdf

[43] California Air Resources Board (CARB), *2022 State Strategy for the State Implementation Plan,* Adopted September 22, 2022. Accessed at: https://ww2.arb.ca.gov/sites/default/files/2022-08/2022_State_SIP_Strategy.pdf

[44] CARB, *Zero-Emission Appliance Standards Public Workshop*, May 10, 2023. Workshop slides accessed at: https://ww2.arb.ca.gov/sites/default/files/2023-05/Workshop_DraftSlides.pdf

[45] CARB, *Zero-Emission Space and Water Heater Standards Public Workshop*, December 11, 2025. Workshop slides accessed at: https://ww2.arb.ca.gov/sites/default/files/2025-12/December_2025_Workshop_Slides_2.pdf

continue to lock-in these long-lived gas measures. Meanwhile, the Staff Proposal omits critical future steps to eliminate natural gas incentives across portfolio segments, sectors, and measure characterizations. Given these omissions and CARB's revised proposal, it is essential that the Commission adopt a preliminary timeline and scope of issues to effectively eliminate natural gas incentives since the anticipated ban on new sales of water and space heating regulations is no longer applicable.

III. CONCLUSION

The Staff Proposal offers a common-sense path forward for the Commission's journey towards the end of ratepayer incentives for natural gas measures in energy efficiency. However, the Staff Proposal's approach does not go far enough to avoid stranding customers with costly long-lived gas appliances, which would undermine the State's decarbonization goals. To implement an aggressive cost-effective approach to decarbonization, the Commission should adopt the recommendations contained herein.

Respectfully submitted,

/s/ MICHAEL EINHORN

Michael Einhorn
Attorney

Public Advocates Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-4852
Email: Michael.Einhorn@cpuc.ca.gov

January 13, 2026