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TO PARTIES OF RECORD IN RULEMAKING 24-09-012:

This is the proposed decision of Commissioner Karen Douglas. 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 July 2, 2026 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 of record 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
Chief Administrative Law Judge

MLC:sgu
Attachment

Decision PROPOSED DECISION OF COMMISSIONER KAREN DOUGLAS
(MAILED 05/29/2026)

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
(Filed September 26, 2024)

**DECISION ESTABLISHING APPLICATION PROCESS FOR
SB 1221 NEIGHBORHOOD DECARBONIZATION PILOT PROGRAM**

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**DECISION ESTABLISHING APPLICATION PROCESS FOR
SB 1221 NEIGHBORHOOD DECARBONIZATION PILOT PROGRAM**

Summary

This decision establishes the process for gas corporations to submit applications for neighborhood decarbonization pilot projects to the Commission. Senate Bill (SB) 1221 requires the Commission to establish a voluntary pilot program to facilitate the cost-effective decarbonization of priority decarbonization zones, not to exceed thirty pilot projects across the state. Each pilot project must demonstrate cost effectiveness by showing that the avoided costs of gas infrastructure investment would be greater than the costs of implementing the zero-emission alternative. This decision allocates those thirty projects among Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), Southwest Gas Corporation (Southwest Gas), and the smaller Commission-regulated gas corporations primarily in proportion to their share of gas demand. The decision sets three deadlines (December 15, 2026, December 15, 2027, and June 1, 2028) by which interested gas corporations may submit applications containing their proposals.

This decision describes the information and high-level plans an application must contain in order for the application to comply with the requirements and goals set forth by SB 1221. Each pilot project proposed in each application must enable decommissioning of gas infrastructure, generate sufficient cost savings to pay for the pilot, alone or in combination with other funding identified in the application, and demonstrate compliance with other substantive and procedural requirements established in SB 1221 as set out in this decision.

The decision requires applications to put forward a proposal of whether to expense or amortize the costs they incur to conduct behind-the-meter work (e.g., appliance purchase and installation) and sets a framework for a shareholder incentive structure that would incentivize gas corporations to maximize cost savings for ratepayers.

1. Background

On October 4, 2024, the California Public Utilities Commission (Commission) issued the instant rulemaking to continue the work of Rulemaking (R.) 20-01-007, with the broad purpose facilitating a gas transition that supports equity, safety, and affordability and mitigates reliability challenges, commodity price spikes and other potential adverse outcomes.¹ That same year, Governor Newsom signed into law Senate Bill 1221 (Min, Chapter 602, Statutes of 2024) which requires the Commission to, among other things, designate Priority Neighborhood Decarbonization Zones (PNDZs) and establish a pilot program to enable the cost-effective decarbonization of those PNDZs. On December 23, 2025, the Commission issued Decision (D.) 25-12-042 establishing the PNDZs. This decision establishes the pilot program.

On October 16, 2025, the assigned Commissioner issued a Second Amended Scoping Memo to incorporate Senate Bill (SB) 1221 activities for the establishment of a program to facilitate the cost effective decarbonization of priority neighborhood decarbonization zones through pilot projects (pilot program) in the scope of this proceeding. The Second Amended Scoping Memo added Tracks 3 and 4 and set the schedule for implementation of Public Utilities Code (Pub. Util. Code or Code) Section 663 requirements; and in its Appendix A

¹ 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 at 2.

requested party comments on a list of questions related to the establishment of the pilot program.

On December 3, 2025, The Public Advocates Office at the California Public Utilities Commission (Cal Advocates); City and County of San Francisco (San Francisco); Coalition of California Utility Employees (CUE); Center for Accessible Technology (CforAT); California Municipal Utilities Association (CMUA); County of Contra Costa (Contra Costa); Central California Rural Regional Energy Network (CCR REN); City of Elk Grove (Elk Grove); City of Palo Alto, California, City of Vernon, City of Long Beach (collectively Gas MOUs); Indicated Shippers; Peninsula Clean Energy Authority, San Diego Community Power, San José Clean Energy, Silicon Valley Clean Energy Authority, and Sonoma Clean Power Authority (collectively Joint CCAs); California State Association of Electrical Workers, California State Pipe Trades Council, Western States Council of Sheet Metal, Air, Rail and Transportation Workers (collectively Labor Coalition); Sierra Club and the Natural Resources Defense Council (NRDC) (jointly NRDC/Sierra Club); PG&E; Small Business Utility Advocates (SBUA); Southern California Edison Company (SCE); SoCalGas and SDG&E (collectively the Sempra Utilities); Southwest Gas, The Utility Reform Network (TURN) filed opening comments on the Second Amended Scoping Memo Appendix A questions.

On December 17, 2025, Cal Advocates, San Francisco, CMUA, Contra Costa Building and Construction Trades Council (CCBCTC), Elk Grove, Indicated Shippers, Joint CCAs, Labor Coalition, NRDC/Sierra Club, PG&E, SBUA, SCE, Southwest Gas, Sempra Utilities, UCAN filed reply comments on the Second Amended Scoping Memo Appendix A questions.

On December 18, 2025, the Commission issued Decision (D.) 25-12-042 to adopt 151 initial priority neighborhood decarbonization zones (PNDZ) pursuant to Pub. Util. Code Section 662(a).

On December 23, 2025, PG&E filed a motion to amend the SB 1221 Memorandum Account to incremental verifiable costs pursuant to D.25-12-042 (PG&E Motion).

On January 9, 2026, SoCalGas and SDG&E filed a joint motion to amend their respective SB 1221 Memorandum Accounts to incremental verifiable costs pursuant to D.25-12-042 (Joint Motion). On January 26, 2026, Indicated Shippers filed a response to the Joint Motion. On January 30, 2026, the assigned Administrative Law Judge (ALJ) issued an e-mail ruling authorizing SoCalGas and SDG&E to reply to Indicated Shippers' response.

On March 4, 2026, the assigned Commissioner issued the Third Amended Scoping Memo which amended scoped issue number fifteen and added issue 17a to the proceeding scope.

On March 17, 2026, the assigned ALJ issued their *Ruling Requesting Additional Information to Implement Senate Bill 1221* (SB 1221 Ruling). On March 27, opening comments on the SB 1221 Ruling were filed and served by CUE, Indicated Shippers, the Joint CCAs, the Sempra Utilities, NRDC and Sierra Club, PG&E, SBUA, SCE, SW Gas, and TURN; on April 3, 2026, reply comments on the SB 1221 Ruling were filed and served by CUE, Indicated Shippers, the Sempra Utilities, NRDC and Sierra Club, PG&E, SBUA, SCE, and TURN.

2. Submission Date

This matter was submitted on April 3, 2026 upon filing of reply comments to the SB 1221 Ruling.

3. Issues Before the Commission

The issues before the Commission are listed below. The numbering for each issue corresponds to the numbers assigned to the issues by the Scoping Rulings and therefore do not begin at 1 and may not proceed sequentially.

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. How should the gas corporations demonstrate property owners' consent to participate in the pilot, as well as adequate notifications about the pilot to property owners and affected customers, 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?²
 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)?
 - 17a. 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 other relevant entities?
 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

² See, e.g., Cal. Unemp. Ins. Code § 14005(r).

- 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?

4. Definitions of Terms

4.1. Affected Customer

Code Section 663(b)(4) requires the Commission to establish “the manner in which consent shall be received and notifications about the pilot project shall be provided to property owners and affected customers.”

For the purposes of this proceeding, the Commission defines the affected customer as the utility account holder for a property within the project boundary. The affected customer may or may not be the property owner.

4.2. Coordinating Entities

Code Section 663(b)(7) obligates the Commission to set a requirement that “gas corporations and electrical corporations, local publicly owned electric utilities, load-serving entities, local governments, and, if feasible, core transport agents affected by the pilot project coordinate and collaborate.”

For the purposes of this proceeding, the Commission defines the coordinating entities for a given pilot as the gas corporations and electrical corporations, publicly owned electric utilities, load-serving entities, local governments, core transport agents, and community-based organizations that are based in or serve the pilot project area.

4.3. Gas Corporation

Code Section 663(b)(1) directs the Commission to determine a process for “gas corporations” to submit pilot projects for approval.

PG&E and the Sempra Utilities note that Code Section 222 includes a definition of gas corporations.³ Joint CCAs, SCE and Southwest Gas recommends that “gas corporations” be defined as gas utilities subject to Commission jurisdiction and Cal Advocates recommends that submission of pilot projects be limited to gas distribution companies.⁴ CMUA notes that publicly owned utilities (POUs) are not considered gas corporations for the purposes of SB 1221.⁵

To achieve the purposes of Senate Bill 1221, this decision construes “gas corporation” to refer to all gas distribution utilities under Commission jurisdiction.

4.4. Master-Metered Properties

Code Section 663(b)(5) requires the Commission to establish “[a] requirement for addressing master-metered properties to ensure tenants receive adequate notification and engagement.”

This decision adopts the definition of master-metered property as a property in which utility service is provided through a single meter to a customer of record, who then distributes, submeters, or allocates the service to multiple end users, including tenants or residents.⁶

³ PG&E Opening Comments at 6, Sempra Utilities Opening Comments at 7.

⁴ NRDC/Sierra Club Opening Comments at 5, Joint CCAs Opening Comments at 5, CMUA opening Comments at 5.

⁵ CMUA Opening Comments at 5.

⁶ *See, e.g.*, D.95-02-090, 1995 Cal. PUC LEXIS 141 at *2.

4.5. Prevailing Language

Code Section 663(b) contains several references to the “prevailing language” but does not define the term.

This decision defines a language as a prevailing language in a pilot project area if at least five percent of the area’s population use the language in question and do not speak English or are unable to effectively communicate in English and comprise five percent or more of the population in the pilot project area. This definition is consistent with the Dymally-Alatorre Bilingual Services Act (Government Code Sections 7290-7299.8), applicable to state and local agencies, which uses different but related concepts.

4.6. Property Owner

Code Section 663(b)(4) requires the Commission to establish “[a] requirement that no less than 67 percent of the property owners with natural gas service within the pilot project boundary consent to the pilot project.”

For the purposes of this proceeding, the Commission defines the property owner as the legal owner of record. Property owners may include, for example, owners of single-family homes, condominiums, residential buildings, mobile home parks, commercial buildings, industrial buildings, or other master-metered properties where gas utility service is provided.

4.7. Zero-Emission Alternative

SB 1221 focuses on the deployment of zero-emission alternatives (ZEAs) to substitute for the provision of natural gas service. Code Section 660(j) defines ZEAs 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.” Code

Section 660(h) defines a thermal energy network as “a network of piped noncombustible fluids used for transferring heat into and out of buildings for purposes of providing zero-emission heating and cooling services.”

Parties hold different perspectives on whether combustion-based technologies (e.g., hydrogen, propane, renewable natural gas (RNG)) should qualify as zero-emission alternatives. PG&E and the Sempra Utilities argue in support of combustion-based fuels, noting that customer preference for gas appliances or implementation and fuel transition challenges may limit electrification efforts.⁷

San Francisco challenges the use of fuels such as propane or liquified gas. San Francisco asserts that, even though they do not require delivery through a pipeline, they do not further the state’s goals, so the Commission should only allow “truly zero-emission technologies.”⁸ TURN argues that supply-side alternatives that provide other types of gas, such as hydrogen blending, may not avoid the need to maintain the underlying gas system.⁹ NRDC/Sierra Club recommend measures that do not perpetuate fossil fuel combustion. TURN notes that combustion-based technologies may not fully avoid the underlying gas system costs with negative impact to cost effectiveness; CMUA recommends alternatives that can replace fossil fuel combustion; Joint CCAs and San Francisco recommend proven electrification measures; and SCE, while not recommending restrictions, requests that all pilots consider electrification as “it is commonly recognized as the most viable option for reaching the state’s [zero emissions]

⁷ PG&E Opening Comments at 10 Sempra Utilities Opening Comments at 20.

⁸ San Francisco Reply Comments at 1.

⁹ TURN Opening Comments at 7.

goals.”¹⁰ TURN, NRDC/Sierra Club and Joint CCAs refer to SB 1221 Section 1 (a)(4) and (5) that name heat pumps as alternatives and Section (a)(6) that mentions greenhouse gas emissions reductions and improved air quality to support a more narrow definition for ZEAs.¹¹

Other parties propose that ZEAs be defined based on broad implementation criteria rather than being technology specific. Cal Advocates recommends that the definition of ZEA not prescribe specific technologies; instead, the Commission should require ZEAs to be cost effective, regionally scalable, reliable, and use established technologies.¹² The Joint CCAs, Sierra Club and NRDC, and TURN argue that ZEAs should be focused on energy efficiency and electrification measures.¹³

Beyond discussing specific types of technologies, parties generally proposed that alternatives must be commercially available, reliable, scalable, repeatable, and safe. No party opposed these requirements.

Finally, the Joint CCAs suggest that electric vehicle charging should qualify as a ZEA. Cal Advocates, the Labor Coalition, and Indicated Shippers support inclusion of thermal energy networks.¹⁴

¹⁰ TURN Opening Comments at 7, CMUA Opening Comments at 11, Joint CCAs Opening Comments at 12, San Francisco Opening Comments at 6, SCE Opening Comments at 11.

¹¹ TURN Opening Comments at 7, NRDC/Sierra Club reply Comments at 5, Joint CCAs Reply Comments at 5.

¹² Cal Advocates Opening Comments at 8

¹³ Joint CCAs Opening Comments at 12, Sierra Club and NRDC Opening Comments at 8, TURN Opening Comments at 5,

¹⁴ Cal Advocates Opening Comments at 8 to 11, Labor Coalition Opening Comments at 13, Indicated Shippers Reply Comments at 9. Pub. Util. Code Section 660(h) defines thermal energy networks as “a network of piped noncombustible fluids used for transferring heat into and out of buildings for purposes of providing zero-emission heating and cooling services.”

This decision does not set any constraints on the definition of zero-emission alternative and instead applies the definition of ZEA as set forth in Section 660(j) and directs utilities to explain how their proposed ZEA is commercially available, reliable, scalable, and safe.

5. Project Proposal Submission Process

5.1. Voluntary Program

Code Section 663(a) directs the Commission to establish a “voluntary program.”

Cal Advocates, PG&E, SCE, CUE, Sempra Utilities, UCAN, and Labor Coalition note that pilot submissions are voluntary citing Pub. Util. Code Section 663(a).¹⁵ CCR REN, NRDC/Sierra Club, Joint CCAs recommend the Commission require all large gas utilities to submit pilot proposals.

Southwest Gas recommends only gas corporations with designated PNDZs should submit pilot proposals.¹⁶ NRDC/Sierra Club argues that lack of identified PNDZ should not be an excuse for not submitting pilot proposals noting the example that public interest exists in the case of Southwest Gas.¹⁷

SCE and Joint CCAs recommend that the Commission should permit electric utilities and other program administrators to submit pilots and that electric utilities and other qualified implementers should be allowed to administer the electrification portion of a pilot.¹⁸

¹⁵ Cal Advocates Opening Comments at 2, PG&E Opening Comments at 6, SCE opening Comments 5, CUE Opening Comments at 2, Sempra Utilities opening Comments at 7, UCAN Reply Comments at 4, Labor Coalition Opening Comments at 7.

¹⁶ SWG opening Comments at 2, SWG Reply Comments at 2.

¹⁷ NRDC/Sierra Club Opening Comments at 5.

¹⁸ SCE opening Comments at 6, Joint CCA Reply Comments at 3.

This decision affirms that this is a voluntary pilot program and authorizes, but does not require, gas corporations to file applications for pilot projects.

5.2. Applications versus Advice Letters

Pub. Util Code Section 663(b)(1) directs the Commission to establish a process for gas corporations to determine and submit pilot projects for approval. The Second Amended Scoping Memo included a proposal that gas corporations should submit their pilot projects via applications in multiple rounds; further, it sought party comments on the timing of the first round of applications, how many rounds of application the Commission should allow, and if there should be a limit on the number of projects per submission. SB 1221 provides that the Commission shall not establish pilot projects under Section 663 on or after January 1, 2030.

Party opinions are mixed on this topic. SCE supports applications for projects above a certain size. Indicated Shippers states that the Commission signaled its intent for an application-based submission process in the Second Amended Scoping Memo and argues that the Commission is “better equipped to review and approve proposed pilot projects” through the application process.¹⁹ Given the complexity and novelty of these pilots, Indicated Shippers highlighted the value of the application process, stating that it “has tools that allow the Commission more creativity and flexibility to address challenges that may arise during the initial years of the program.”²⁰ CCR REN, Contra Costa, CMUA, CUE,

¹⁹ Indicated Shippers Reply Comments at 4; SCE Opening Comments.

²⁰ Indicated Shippers Reply Comments at 4-5.

the Labor Coalition, San Francisco, and TURN did not oppose the Scoping Memo proposal to use an application as the vehicle for pilot submissions.²¹

The NRDC and Sierra Club, Sempra Utilities, PG&E, Southwest Gas, Joint CCAs and Cal Advocates disagree and instead recommend that utilities submit pilot proposals via Advice Letter (AL), arguing that the application process is too slow.²² SCE recommends an AL process for most projects.

Some parties offered AL-based proposals for submission and administration of pilot projects. PG&E proposed a framework for utilities to develop proposals to be submitted via Tier 3 ALs, that mirrors the Energy Efficiency programs, with updates via Tier 2 ALs.²³ The Sempra Utilities proposed a two-stage AL-based approach for submission and approval of pilot projects based on criteria and a schedule approved by the Commission.²⁴ SCE proposed a hybrid approach with ALs for projects that meet certain criteria set by the Commission with a budget below \$7 million per project.²⁵

This decision directs gas corporations that wish to submit pilot project proposals to do so by filing and serving an application on the service list for the instant proceeding. As these projects are novel, we encourage potential applicants to engage with the Commission's Energy Division staff in at least one pre-filing meeting, ideally early in the pilot development process after the

²¹ CCR REN Opening Comments, Contra Costa Opening Comments, CMUA Opening Comments, CUE Opening Comments, Labor Coalition Opening Comments, San Francisco Opening Comments, TURN Opening Comments.

²² NRDC/Sierra Club Opening Comments, Sempra Utilities Opening Comments, PG&E opening Comments, SWG Reply Comments, Joint CCAs Reply Comments, Cal Advocates Reply Comments.

²³ PG&E Opening Comments at 3-4.

²⁴ Sempra Utilities Opening Comments 2-5.

²⁵ SCE Opening Comments at 4.

candidate locations for pilot projects have been identified but before beginning outreach to property owners and affected customers.

The application process will allow both the Commission and stakeholders to closely review the project proposals, increasing the transparency and rigor of evaluation.

5.3. Application Submission Schedule

Code Section 663(d) states that the Commission shall not establish pilot projects on or after January 1, 2030.

Parties offered recommendations on the deadline for the first round of project proposals and the process and timelines for future rounds of proposals. CMUA recommends that gas corporations submit their grouped applications “after reasonable consideration of potential pilot projects following the Commission’s finalization of the program criteria in July of 2026.”²⁶ Proponents of an AL-based process suggest initial AL submissions start 60 days after the program is established (PG&E), or 90 days after the program is established (San Francisco and NRDC/Sierra Club and SCE, if subsequent rounds allowed).²⁷

The Joint CCAs and Southwest Gas propose that gas corporations could submit pilot proposals annually, while SCE and the Sempra Utilities suggest twice-yearly submissions.²⁸ Contra Costa recommends the timeline should allow

²⁶ CMUA Opening Comments at 4.

²⁷ PG&E Opening Comments, NRDC/Sierra Club Opening Comments, San Francisco Opening Comments, SCE Reply Comments at 10.

²⁸ SCE Opening Comments, Sempra Utilities Opening Comments.

for additional decarbonization zones to be identified.²⁹ PG&E suggests that more than one application round per year would be administratively burdensome.³⁰

This decision sets a deadline of December 15, 2026, for utilities to submit applications for the first round of pilot proposals and December 15, 2027 for the second round. If the 30-pilot cap is not met after the second round of submissions, the Commission will allow a third round of project proposals by July 1, 2028. This schedule balances the urgency of meeting the statutory deadline with gas corporations' need for time to develop their applications.

5.4. Maximum Number and Size of Projects Per Application

Code Section 663(a) requires the Commission to “establish a voluntary program to facilitate the cost effective decarbonization of priority neighborhood decarbonization zones, not to exceed 30 pilot projects across the state and affecting no more than 1 percent of each gas corporation’s customers within their service territory. A pilot project where a gas corporation obtains the consent of 100 percent of property owners with natural gas service within the project boundary shall not count toward the 30 pilot project limit.” Parties, conscious of these restrictions, recommended that the Commission be cognizant of the number of projects it approves at any given time. Southwest Gas and Indicated Shippers suggest that the Commission consider Commission staff and utilities’ ability to oversee and implement projects but did not recommend a cap on the number of projects the Commission approves;³¹ Contra Costa and CMUA suggest that the Commission not approve all 30 projects in the first round. The

²⁹ Contra Costa County Opening Comments.

³⁰ PG&E Opening Comments at 5.

³¹ SWG Opening Comments at 2, Indicated Shippers Reply Comments at 5-6.

Joint CCAs suggest a minimum of five projects per utility per application, with two ranked as high priority, which PG&E suggests is too strict. SCE offers that the Commission should approve no more than 15 projects in the first round, reserving the remaining 15 projects for subsequent rounds.³²

SCE suggests the Commission establish an upfront budget for each gas utility proportional to its share of load so pilot opportunities are distributed “across all service territories equitably, while allowing for a comprehensive assessment of consumer, geographic, electric system, and service area differences.”³³ No party opposed SCE’s proposal.

The Commission will authorize gas corporations to implement a total of no more than sixteen projects in the first round of applications to provide opportunity for projects in later rounds. The Commission sets individual caps specific to each gas corporation for the first and second rounds. For each round, the Commission will apportion fourteen projects between the large gas corporations (PG&E and SoCalGas/SDG&E) proportionately to their demand, as suggested by SCE. Accordingly, across the first two rounds, the Commission will allocate the twenty-eight projects among PG&E and SDG&E and SoCalGas based on their share of demand served in 2024 according to the 2025 California Gas Report.³⁴ Using this methodology, the caps for the first round of applications are as follows: seven projects for PG&E and seven projects for SDG&E and SoCalGas. Accordingly, across the first two rounds, the Commission will allocate the twenty-eight projects among PG&E and SDG&E and SoCalGas based on their share of demand served in 2024 according to the 2025 California

³² SCE Reply Comments at 10.

³³ Joint CCAs opening Comments 4, SCE Opening Comments at 5.

³⁴ See 2025 California Gas Report: [2025-CA-Gas-Report-FINAL.pdf](#).

Gas Report.³⁵ Using this methodology, the caps for the first round of applications are as follows: seven projects for PG&E and seven projects for SDG&E and SoCalGas. The Commission allocates the two remaining projects to gas corporations that would not otherwise be allocated project slots due to their smaller share of demand: one project slot is reserved for Southwest Gas, and one project slot is for the small gas corporations. This is done because there may be interested potential stakeholders in Southwest Gas's service territory and to give opportunity for areas in the smaller gas corporations' service territory to participate. These single-project allocations can be used in either of the first two rounds of the pilot program; in other words, if Southwest Gas were to implement a pilot approved in the first round of applications, there would be no additional room in the cap for Southwest Gas to submit projects.

The Commission has set the sixteen-project cap for the first round to also encourage a diversity of project types. Some projects, by their nature, may take longer to develop and plan than others, and the Commission wants to provide gas corporations sufficient time to explore those projects for the second round. Furthermore, technological developments and cost reductions in the next two years may cause some projects that currently do not meet cost effectiveness thresholds to meet the thresholds in the future.

Unless and until the Commission provides updated guidance, the same caps shall apply to the second round of applications. If any slots remain by the time of the third round of applications, the Commission will not assign those projects to specific gas corporations; in other words, the utility-specific caps are moot once the third round of applications are due.

³⁵ See 2025 California Gas Report: [2025-CA-Gas-Report-FINAL.pdf](#).

Project Cap Calculations

	2024 Recorded Gas Demand (MMcfd)	2024 Recorded Gas Percentage ³⁶	First Round Caps	Second Round Caps	Third Round Caps
PG&E	2,595	51%	7	7	Allow use of any unused slots.
SoCalGas and SDG&E	2,534	50%	7	7	
Southwest Gas		< 1%		1	
Small gas corporations (SCE's Catalina Operations, West Coast, Alpine)		< 1%		1	

Even though the Commission will cap the number of projects per utility that it may allow to be implemented from the first and second round of applications, gas corporations may submit up to three additional proposals in anticipation of possible attrition among the approved projects, as projects may not move forward for a variety of reasons. It is also possible that a proposed pilot project may obtain the consent of 100 percent of property owners with natural gas service within the project boundary, and if so, that pilot project would neither count toward the utility-specific caps nor the statewide 30-pilot project limit.

6. Project Parameters and Application Development Requirements

This section describes the parameters (i.e., characteristics, limits, and requirements) that each pilot must meet, provides guidance, and sets

³⁶ The numbers in this column add up to more than 100 percent due to rounding.

requirements that the gas corporations (and other regulated stakeholders) must follow during the project identification process (i.e., the application development process). Subsequent sections provide guidance on how applicants are expected to record the costs and benefits of their proposed projects, calculate the projects' cost effectiveness, and seek to recover those costs. The application section identifies the information to include in applications.

6.1. Project Locations, Sizes, and Boundary Shapes

Parties recommend that each pilot project application should include the following information.

- Locations:³⁷
 - Project locations (San Francisco)
 - by census tract (SoCalGas and SDG&E)
 - CalEnviroScreen scores for the census tracts in the pilot project area (San Francisco)
 - Demonstration that all proposed pilot projects fall within Commission-designated PNDZs (Cal Advocates)
- Customer Count:³⁸
 - by rate class (Cal Advocates, SoCalGas and SDG&E, Southwest Gas)
 - by electric provider (Southwest Gas)
 - by enrollment status in income-qualified programs (Cal Advocates)
 - by DAC status (Southwest Gas)
 - by ESJ status (San Francisco)

³⁷ Cal Advocates Opening Comments on Second Amended Scoping Memo at 3; San Francisco Opening Comments on Second Amended Scoping Memo at 2; SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 8.

³⁸ Cal Advocates Opening Comments on Second Amended Scoping Memo at 2 to 3; San Francisco Opening Comments on Second Amended Scoping Memo at 2; SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 8; Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 4.

Cal Advocates recommends that the customer counts should be provided at a more detailed level than just at the project level; Cal Advocates recommends the Public Use Microdata Area (PUMA) level of detail, at minimum.³⁹

Cal Advocates' comments assume that all projects must overlap with Priority Neighborhood Decarbonization Zones, but SB 1221 does not explicitly require the pilots to be exclusively within the PNDZs. In this early stage of the pilot program, the Commission believes it is prudent to allow pilots outside of the PNDZs if they otherwise meet the applicable statutory criteria. Applications for these pilot project areas must describe how each project location meets some or all of the criteria set by Code Section 662(a).⁴⁰ Applicants should design their projects to meet the pilot program's requirements (e.g., cost effectiveness, outreach to various stakeholders). Accordingly, this decision does not set restrictions on the location or geographic size of a pilot project area.

Applicants should show the project boundary in their application. The project boundary does not need to be contiguous or a specific shape, but the applicant should explain the rationale if the pilot project area is not contiguous. For example, a pilot project area might have noncontiguous streets or cul-de-sacs in the same neighborhood that are served by the same gas main.

³⁹ Cal Advocates Opening Comments on Second Amended Scoping Memo at 3.

⁴⁰ Section 662(a) directed the Commission to develop PNDZs by considering:

- (1) Presence of disadvantaged or low-income communities in high-temperature climate zones or low-temperature climate zones that disproportionately lack cooling or heating.
- (2) Presence of environmental and social justice communities as defined in the commission's Environmental and Social Justice Action Plan.
- (3) Availability of supportive local government or community partners.
- (4) Concentration of gas distribution line replacement projects identified in the map submitted pursuant to Section 661.

This decision requires applicants to, at a minimum, include the following information in their applications:

- Maps showing the boundaries of proposed projects.
 - A map of the applicant's service territory showing the boundaries of all the proposed projects; and
 - Individual maps for each proposed project.
- For each project:
 - List of the census tracts that overlap with the pilot project area. The application should provide each census tract's CalEnviroScreen score, DAC status, and the number of affected customers residing within it.
 - Number of properties inside the pilot project area (by property type).
 - Number of property owners in pilot project area.
 - Number of gas customers in the project boundary (by customer class, by enrollment in income-qualified programs).
 - Number of electric customers in the project boundary (by electric utility, by customer class, by enrollment in income-qualified programs).
 - List of the federally recognized tribal lands the pilot project area overlaps with.
 - List of the areas affiliated with Native American tribes that are on California's Native American Heritage Commission Contact List.
 - List of prevailing languages in the pilot project area, including estimated portion of residents that speak those languages.

This decision requires applicants to include all the information listed above consistent with parties' requests . With regard to PDNZ(s), applications must identify the PNDZ(s) with which their pilot projects overlap and/or describe how each project location meets some or all of the criteria set by Code Sections 662(a)(1) or (2) and (3)-(4). For projects that cross multiple census tracts,

the information below should be broken out by census tract for consistency with the granularity used by the CalEnviroScreen tool; if certain data are not available at the census tract-level, applicants shall confer with Energy Division staff to determine the appropriate granularity at which they should provide the information.

Finally, applicants may include any other information that they believe would be useful or necessary for the Commission to assess the application.

6.2. Customer Offerings

6.2.1. Appliance Replacement and Home Remediation

San Francisco recommends that the gas corporations should offer the participating customers a range of appliances to choose from and provide those customers with the contact information for help with maintenance and troubleshooting of the new equipment and appliances.⁴¹ Cal Advocates recommends that the pilots should use established technologies rather than technologies still in the research and development phase.⁴² They want to avoid a scenario where the technology could require significant maintenance or replacement shortly after installation or could void residents' insurance or warranties because of its state of development.⁴³

Elk Grove recommends that participants not be required to pay the upfront cost for any of the capital investments (e.g., appliances, home

⁴¹ San Francisco Opening Comments on Second Amended Scoping Memo at 8.

⁴² Cal Advocates Opening Comments on Second Amended Scoping Memo at 10.

⁴³ Cal Advocates Opening Comments on Second Amended Scoping Memo at 10.

remediation costs, etc.).⁴⁴ Indicated Shippers disagree, arguing that behind-the-meter (BTM) costs should be paid for by the customers who benefit from them.⁴⁵

This decision requires applicants to replace customers' existing natural gas-fueled appliances with new appliances to effectuate the ZEA. Applicants must describe the appliances they propose to offer, make a demonstration that all customers will receive suitable substitute energy service,⁴⁶ and show that low-income⁴⁷ customers in particular receive affordable, adequate, and efficient service.⁴⁸ In explaining their application, applicants are encouraged to reference lessons learned and best practices from experiences with similar programs. Applicants may choose to offer participants a menu of options for each appliance or choose to provide a single no-cost offering; either way, The applicant must provide appliances that carry at least an industry-standard new appliance warranty and comply with California's appliance efficiency standards, as adopted in Title 20 of the California Code of Regulations. If applicants choose to offer a menu of options, the applicant must at minimum offer recipients a no-cost option for certain appliances if they are also allowing the recipient to contribute additional funds to purchase more appliances, more costly appliances, or both.

⁴⁴ Elk Grove Opening Comments on Second Amended Scoping Memo at 4.

⁴⁵ Indicated Shippers Opening Comments on Second Amended Scoping Memo at 20.

⁴⁶ Code Section 660(j).

⁴⁷ Code Section 660(f) defines "low-income" as "having a household income no greater than 80 percent of area median income or qualifying for participation in the California Alternate Rates for Energy (CARE) program or Family Electric Rate Assistance (FERA) program." This decision uses the statutory definition.

⁴⁸ Code Section 663(b)(3).

Applications shall propose ways to provide pilot participants with the remediation services necessary to safely install the new appliances. These upgrades are required because they are prerequisites for the installation and safe operation of the replacement appliances. These upgrades could include, but are not limited to, service panel upgrades and load management devices. Services to increase cost effectiveness, such as energy-efficient insulation, may be included; the Commission encourages applicants to make use of existing programs (e.g., the Energy Savings Assistance Program) and non-ratepayer sources of funds when available.

Furthermore, applicants may provide additional ZEA options (e.g., energy efficiency, demand response devices, adding heating and/or cooling capabilities not previously on site, etc.) provided the cost of the additional ZEA options is relatively marginal in relation to the overall ZEA budget and applications show the project is cost effective.

Except as discussed above, the applicants are not required to provide the affected customers/property owners with all replacement appliances or the home-remediation measures at zero upfront cost, but the applicant must provide an explanation if it chooses not to do so. This explanation must describe how, despite requiring up-front contributions, the pilot will ensure all customers receive suitable substitute energy service and low-income customers receive affordable, adequate, and efficient service.

Applications must include a description of the appliances and building remediation services the applicant plans to offer customers and cost estimates for materials and services.

6.2.2. Enrollment in Complementary Programs

Parties recommend a variety of complementary rates and services that gas corporations could offer to improve the participants' electric conversion experience. Elk Grove suggests that utilities should offer on-bill financing to reduce or eliminate the participants' financial risk.⁴⁹ SBUA recommends that gas corporations provide offerings tailored to small business customers such as increased incentives, financing options, technical assistance, and direct outreach to small business areas such as restaurants.⁵⁰ San Francisco recommends that the electric utilities should offer customers enrollment in the most beneficial rate schedule as well as any available energy efficiency, demand response, and weatherization programs.⁵¹

This decision requires the participating gas corporations to identify the existing, relevant programs available in their service territories that could reduce costs or improve outcomes for the affected customers (e.g., CARE, FERA, Medical Baseline, ESA), and make that information available to all property owners and customers in a pilot project area and, as appropriate, provide enrollment assistance.⁵² This includes assisting customers in choosing the best rate schedule to adopt. If applicants wish to offer additional technical assistance or similar services, they may include the proposal in their applications with justification. However, this decision does not require them to do so.

⁴⁹ Elk Grove Opening Comments on Second Amended Scoping Memo at 4.

⁵⁰ SBUA Opening Comments on Second Amended Scoping Memo at 3.

⁵¹ San Francisco Opening Comments on Second Amended Scoping Memo at 7 to 8.

⁵² The gas corporations should provide this type of information to all customers, including but not limited to low-income customers.

6.2.3. Further Considerations

San Francisco recommends that customers who reside in communities where the 67 percent property owner consent threshold was not met still be given an incentive to decommission their gas service line and obtain replacement appliances at no or reduced cost.⁵³

The Commission does not adopt San Francisco's recommendation to require utilities to offer subsidized electric conversion to interested customers in communities that did not meet the 67 percent consent threshold as part of this program. A primary purpose of SB 1221 is to identify cost effective, scalable decarbonization strategies through targeted decommissioning of the gas distribution system, and without savings from avoided pipeline repair or replacement or sources not funded by ratepayers, there is no funding to provide incentives.

6.3. Customer Impacts

6.3.1. Affordability and Consumer Protections

Code Section 663(b)(3) requires the Commission to establish "[requirements] and programs to ensure that a substitute for gas service for low-income customers is affordable, adequate, efficient, and just and reasonable."

This decision does not set global definitions or thresholds to determine whether the substitute energy service is affordable, adequate, or efficient. Instead, the Commission may evaluate in a subsequent decision this year how to determine whether substitute energy service is affordable, adequate, efficient and just and reasonable after further record development. First-round applicants must include a discussion of how their project meets the requirement of Code Section 663(b)(3).

⁵³ San Francisco Opening Comments on Second Amended Scoping Memo at 8.

6.3.2. Bill Impacts

Parties recommend that each pilot application should include some or all the following information:⁵⁴

- Impact on non-participating gas customers (Elk Grove)
- Impact on non-participating electric customers (Elk Grove, Indicated Shippers)
- Impact on participants' bills
 - All participants (Elk Grove, Southwest Gas)
 - Participants enrolled in income-qualified programs (Elk Grove)
 - Participants not enrolled in income-qualified programs (Elk Grove)

This decision requires applications to include an approximate comparison of aggregate pre- and post-pilot total energy bills (i.e., combined bill for natural gas and electricity) across pilot participants. The comparison should specify the assumptions used (e.g., electric rate schedule and energy usage). Specifically, the application must calculate and show the 25th, 50th, 75th, and 90th percentile for gross change in monthly energy bills and monthly energy use and percentage change in monthly energy bills and monthly energy use.⁵⁵ The applicant should conduct this analysis for three customer segments: first, all customers in the pilot project area; second, for customers enrolled in income-qualified programs in the pilot project area (e.g., CARE, FERA); third, for customers in the pilot project area not enrolled in income-qualified programs.

⁵⁴ Cal Advocates Opening Comments at 2, CUE Opening Comments at 3, Elk Grove Opening Comments at 7, Indicated Shippers Opening Comments at 5 to 10, Joint CCAs Opening Comments at 5, Southwest Gas Opening Comments at 2.

⁵⁵ Monthly energy use refers to consumption of gas and use of electricity.

As discussed in a later section, the applicants must provide prospective participants with estimates of how the pilot would affect their total energy bills.

6.4. Infrastructure Impacts

6.4.1. Gas Infrastructure

Parties recommend that each pilot application should include some or all of the following information:⁵⁶

- Location and length of existing gas mains in the pilot project area (both the mains the applicant proposes to decommission and the mains the applicant proposes to continue operating) (Southwest Gas)
- Pipe materials and diameters (Southwest Gas)
- Locations and costs associated with the gas infrastructure the pilot proposes to decommission (i.e., cost of decommissioning and the cost of investment and maintenance that would be necessary but for the decommissioning) (Cal Advocates)
- A map showing non-confidential energy infrastructure (Indicated Shippers)
- A hydraulic feasibility assessment conducted by the gas corporation that indicates the proposed pilot is technically feasible (San Francisco)

This decision requires applicants to include the information described above, except a hydraulic feasibility assessment and instead, this decision requires applicants to describe the feasibility analyses they deem necessary and the results of those analyses. The record does not demonstrate that hydraulic feasibility assessments would be necessary for every pilot site, so setting a blanket requirement may be unnecessary.

⁵⁶ Cal Advocates Opening Comments on Second Amended Scoping Memo at 3; Indicated Shippers Opening Comments on Second Amended Scoping Memo at 12; San Francisco Opening Comments on Second Amended Scoping Memo at 1; Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 4.

Each proposed project must reduce or eliminate future gas infrastructure costs that would otherwise occur, typically by avoiding the replacement or repair of distribution mains or service lines. Gas infrastructure projects that would otherwise occur include, but are not limited to, all gas distribution replacement projects shown on the gas corporations' SB 1221 maps. Applicants shall calculate avoided gas infrastructure costs using the template developed by Energy Division staff and made available on the Commission's SB 1221 Implementation webpage; this template calculates avoided costs using district averages and is discussed in more detail in the section on Cost Effectiveness.

6.4.2. Electric Infrastructure

Cal Advocates, San Francisco, and Southwest Gas recommend that each application should include the electric utility's assessment of the pilot project's anticipated impacts to the electric grid.⁵⁷ Cal Advocates and Elk Grove suggest including a list of the front-of-the-meter and behind-the-meter electrical upgrades necessary to accommodate the pilot project; Cal Advocates asks for the forecasted costs of each these upgrades.⁵⁸

Cal Advocates notes that gas-to-electric conversion will cause electric loads to increase, which may trigger the need for upgrades to the local grid. Accordingly, Cal Advocates recommend that gas corporations analyze historical customer gas usage to inform electric load impacts.⁵⁹ San Francisco recommends requiring gas corporations to provide the appropriate electric utilities with the

⁵⁷ Cal Advocates at Opening Comments on Second Amended Scoping Memo at 11; San Francisco Opening Comments on Second Amended Scoping Memo at 7; Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 8.

⁵⁸ Cal Advocates at Opening Comments on Second Amended Scoping Memo at 11; Elk Grove Opening Comments on Second Amended Scoping Memo at 3.

⁵⁹ Cal Advocates at Opening Comments on Second Amended Scoping Memo at 11.

information necessary for them to forecast the increased load and grid impacts caused by the proposed projects.⁶⁰

Cal Advocates recommend close coordination between gas and electric utilities on this front, noting that the Integrated Capacity Analysis (ICA) Layer on the SB 1221 maps currently does not contain up-to-date data; furthermore, since pilot projects may target areas with gas infrastructure work planned as far out as 2035, the utilities must consider forecasted grid capacity in addition to current capacity. Cal Advocates recommends the annual electric Grid Needs Assessment (GNA) as a starting point.⁶¹ CMUA notes that no public maps equivalent to ICA maps are available from electric POUs and requests that the Commission allow POUs to conduct “an electric capacity screening – not a full grid capacity evaluation.”⁶²

Contra Costa and TURN recommend the Commission authorize applicants to provide BTM upgrades to support electrification (e.g., panel upgrades). The Joint CCAs and NRDC/Sierra Club recommend that applicants utilize panel optimization measures or demonstrate how they can avoid infrastructure upgrades.⁶³

Cal Advocates, San Francisco, SCE, and CMUA note that for electric utilities to conduct the type of in-depth infrastructure analysis described above, gas utilities must be able to provide the electric utilities with protected customer information (e.g., location, historical load, etc.). SCE and CMUA request that the

⁶⁰ San Francisco Opening Comments on Second Amended Scoping Memo at 7.

⁶¹ Cal Advocates at Opening Comments on Second Amended Scoping Memo at 11 to 12.

⁶² CMUA Reply Comments at 4.

⁶³ Contra Costa County Opening Comments at 7; Joint CCAs Opening Comments at 12; NRDC/Sierra Club Opening Comments at 13; TURN Opening Comments at 8.

Commission modify the non-disclosure agreement provided for the SB 1221 Maps to allow the utilities to share this data.⁶⁴

CMUA and Southwest Gas recommend that gas utilities begin collaborating with electric utilities as soon as the gas utility begins contemplating gas infrastructure replacement projects so that the utilities can align on locations, feasibility, and project timing.⁶⁵ SoCalGas and SDG&E disagree, proposing that gas utilities wait to obtain detailed studies of electric capacity until the Commission has provisionally approved a project; during the project development process, they suggest that gas utilities could look to any publicly available grid readiness information that electric utilities already provide (e.g., the ICA or GNA).⁶⁶

This decision requires applications to include information regarding any anticipated electric infrastructure upgrades necessary to support the full electrification of the customer premises within the respective pilot zones. The gas utility's cost effectiveness calculations must account for the cost of any incremental electric infrastructure upgrades triggered by proposed projects. As discussed in a later section, the Commission will require each application to include a demonstration that each project is cost effective, and that calculation must take into account the ratepayer-funded costs of the incremental electrical infrastructure upgrades necessary to implement the project. The application must include cost estimates that are detailed and specific enough for the applicant to demonstrate that each proposed project will be cost effective.

⁶⁴ SCE Opening Comments at 12, CMUA reply Comments at 2.

⁶⁵ CMUA Reply Comments on Second Amended Scoping Memo at 4; Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 6.

⁶⁶ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 10.

This decision does not stipulate that applicants must use the ICA, Grid Needs Analysis (GNA), or any other specific tool or methodology to estimate the magnitude and cost of the anticipated electrical upgrades. Each of those tools serves specific purposes and may not reflect whether or how the electric utility would upgrade infrastructure to accommodate the pilot project. Instead, the applicant must, in cooperation with the electric utility that serves the pilot project areas, provide the following information:⁶⁷

- Descriptions and cost estimates of the electric infrastructure upgrades that the electric utility plans or expects will be necessary to provide service to the pilot project areas if the projects were not expected to occur.⁶⁸
- Descriptions and cost estimates of the incremental electric infrastructure upgrades that the electric utility anticipates would be necessary to provide service to the pilot project areas if the projects were to occur, if any. This should include all the electric infrastructure upgrades not described and costed out in the Customer Offerings section of this decision.
- A demonstration that the project design evaluated and took advantage of all possible ways to avoid or minimize the need for upgrades to electric infrastructure (e.g., service lines, transformers, etc.), including pursuing alternatives to service upsizing that allow the premises to fully electrify safely (i.e., without the risk of exceeding the electric

⁶⁷ Applications must include this information regardless of whether the local electric utility is regulated by the Commission.

⁶⁸ This category of infrastructure is not limited to projects that have been awarded funds in a General Rate Case (GRC) decision. Electric utilities run studies that plan beyond the four-year GRC lookahead, and this cost effectiveness analysis should recognize that fact.

service capacity of the customer premises) or why they were ruled out.⁶⁹ Alternatives to service upsizing include, but are not limited to, the use of the following panel and service optimization strategies: (1) meter socket adapters, (2) circuit splitting devices and/or circuit pausers, (3) “smart” electrical panels and/or sub-panels, (4) load management devices, and (5) power-efficient appliances. Any electric infrastructure upgrade needs identified after these strategies have been pursued and not found to be feasible should be in alignment with the upgrade size limits for building electrification set in D.25-06-034 adopted in the Building Decarbonization proceeding. While electrical panel replacement is generally discouraged if alternatives exist, applications must propose the replacement of any electrical panels that are known or found to have safety defects or are otherwise subject to recall.

In cases where gas or electric utilities must share confidential customer data to support electric grid readiness analysis (e.g., providing historical gas usage data to the electric utility to support electric load forecasts), the gas or electric utilities shall develop and execute non-disclosure agreements with the relevant parties. Any data sharing must be consistent with privacy law and existing Commission rules.

⁶⁹ This requirement is consistent with the Phase 4, Track A Decision the Building Decarbonization proceeding (R.19-01-011), in which the Commission “[affirmed] that in cases where service lines exist and are currently serving customers, service upsizing should be avoided unless necessary and only if other reasonable options (e.g., panel optimization solutions) have been exhausted.” (D.25-06-034 at 20).

6.5. Non-Energy Benefits and Project Prioritization

6.5.1. Climate Impacts

Cal Advocates recommends that the pilot projects should aim to reduce net greenhouse gas and particulate emissions or, at a minimum, be climate neutral.⁷⁰ Cal Advocates recommends against allowing pilots to purchase zero-emission offsets in order to claim GHG reductions.⁷¹

Parties recommend that each pilot application should include some or all of the following information:⁷²

- Changes in GHG emissions (San Francisco; SoCalGas and SDG&E; Southwest Gas)
- Changes in particulate emissions (SoCalGas and SDG&E).
- Changes in transportation emissions (SoCalGas and SDG&E).

This decision requires applications to include forecasts of the proposed projects' impact on annual gas consumption and GHG emissions because the goals of the program include promoting decarbonization and the adoption of zero emission alternatives to natural gas service. For the purposes of standardization, applications shall calculate avoided GHG emissions using the Commission's Avoided Cost Calculator.

6.5.2. High-Road Jobs

Section 663(b)(6) requires the Commission to establish a "preference for pilot projects that provide prevailing wages and use high road job programs." Scoping Issue 16 asks how "gas corporations [should] demonstrate a preference

⁷⁰ Cal Advocates Opening Comments on Second Amended Scoping Memo at 6 and 10.

⁷¹ Cal Advocates Opening Comments on Second Amended Scoping Memo at 11.

⁷² San Francisco Opening Comments on Second Amended Scoping Memo at 3; SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 8; Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 5.

for projects that provide prevailing wages and use high-road jobs programs” and whether the “Commission [should] consider definitions of high road job programs in other state laws to implement this provision.” There is no single definition of a high-road job, but parties generally convey “high road jobs” are jobs that pay prevailing wages, hire union members, and recruit from apprentice programs.⁷³ The Labor Coalition offers that “high road jobs programs” is best understood to mean state-certified apprenticeship programs administered by the California Department of Industrial Relations.⁷⁴

CUE asks the Commission to “give preference to contractors who provide high-quality, high-road jobs that pay prevailing wages” for BTM work.⁷⁵ CUE and the Labor Coalition argue that high-road contractors do better work, create higher customer satisfaction, and provide better working conditions and career ladders than non-high road contractors do.⁷⁶

The Labor Coalition argues that one of the barriers to availability of union labor for BTM work is that there is not a predictable and steady volume of BTM work. To help address this, the Labor Coalition recommends requiring gas corporations to include in their pilot application a “BTM Bundling Plan that identifies how BTM workloads will be bundled and streamlined to facilitate the deployment of skilled, trained, high-road crews.”⁷⁷

⁷³ For example, see Labor Coalition Opening Comments on Second Amended Scoping Memo at 4 (“[An] agreement that guarantees ongoing investment in training and apprenticeship programs and provides competitive wages and benefits [exemplifies] the meaning of ‘high-road’ jobs”).

⁷⁴ Labor Coalition Reply Comments on Second Amended Scoping Memo at 5.

⁷⁵ CUE Opening Comments on Second Amended Scoping Memo at 7.

⁷⁶ CUE Opening Comments on Second Amended Scoping Memo at 7; Labor Coalition Opening Comments on Second Amended Scoping Memo at 4.

⁷⁷ Labor Coalition Opening Comments on Second Amended Scoping Memo at 10.

SoCalGas and SDG&E suggest that gas corporations can, when soliciting bids from contractors to perform work in this program, request that contractors disclose how they will perform the work in accordance with prevailing wages and high-road job programs.⁷⁸ They further recommend that any preference for contractors with high-road jobs should be one of the factors, but not the sole deciding factor, when selecting among contractor bids.⁷⁹ PG&E agrees, arguing that applicants should have flexibility in selecting the appropriate contractors for each job because there are “likely to be circumstances where a contractor has specialized skills, a very small workforce, or operates in a part of our service territory with limited labor resources” and that strict labor requirements could materially restrict the utilities’ ability to source and retain the appropriate contractors – especially for BTM work.⁸⁰

San Francisco, SoCalGas and SDG&E also suggest that gas corporations consider the CEC’s Equitable Building Decarbonization Direct Install Program Guidelines (EBD Guidelines) for workforce practices.⁸¹ The Labor Coalition requests the Commission adopt stronger requirements than those outlined in the EBD Guidelines, as the EBD Guidelines lack requirements for hiring from apprenticeships programs, do not provide guidance for bundling BTM projects, do not set compliance or reporting mechanisms requirements, and do not mandate consultation with labor groups.⁸²

⁷⁸ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 17.

⁷⁹ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 17.

⁸⁰ PG&E Opening Comments on Second Amended Scoping Memo at 9, PG&E Reply Comments on Second Amended Scoping Memo at 4.

⁸¹ San Francisco Opening Comments on Second Amended Scoping Memo at 5; SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 17.

⁸² Labor Coalition Reply Comments on Second Amended Scoping Memo at 6 to 9.

The Joint CCAs and the CCR REN offer that participating utilities could support high-road jobs by providing additional funding to Workforce Education and Training (WE&T) initiatives.⁸³ The Labor Coalition strongly opposes this recommendation, arguing that WE&T offerings do not support high-road jobs programs and instead include activities such as remedial education, English-language classes, and non-comprehensive energy trainings.⁸⁴

The Labor Coalition asks the Commission to require participating utilities to engage with local building and construction trade councils, for both the utility and the councils to produce summaries of each meeting, and for the utility to include those summaries in their project application.⁸⁵

San Francisco recommends that gas utilities conduct outreach to a diverse set of licensed contractors, prioritizing local contractors located in or near the Priority Neighborhood Decarbonization Zones.⁸⁶

SB 1221 requires the Commission to establish a preference for pilot projects that provide prevailing wage and use high road job programs. This decision meets the statutory requirement not by setting requirements or mandating project design elements, but instead by requiring applicants to establish a preference for pilot projects that provide prevailing wages and use high road job programs and to describe in their applications how they established and implemented that preference. Applicants shall specifically describe how they took into account definitions of high road job programs in other state laws.

⁸³ CCR REN Opening Comments on Second Amended Scoping Memo at 3, Joint CCA Opening Comments on Second Amended Scoping Memo at 12.

⁸⁴ Labor Coalition Reply Comments on Second Amended Scoping Memo at 10.

⁸⁵ Labor Coalition Opening Comments on Second Amended Scoping Memo at 8 to 9.

⁸⁶ San Francisco Opening Comments on Second Amended Scoping Memo at 4.

6.5.3. Project Prioritization

SB 1221 contains several provisions that discuss whether and how the Commission should give preference or priority to projects that achieve certain goals. The bill tasked the Commission to designate PNDZs,⁸⁷ authorized the Commission to consider nonenergy benefits in prioritizing pilot projects,⁸⁸ and required the Commission to establish a preference for pilot projects that provide prevailing wages and use high road job programs.⁸⁹ In determining PNDZs, SB 1221 directs the Commission to consider factors including, but not limited to, the “[presence] of disadvantaged or low-income communities in high-temperature climate zones or low-temperature climate zones that disproportionately lack cooling or heating,” the “[presence] of environmental and social justice communities as defined in the commission’s Environmental and Social Justice Action Plan,” the “[availability] of supportive local government or community partners,” and the “concentration of gas distribution line replacement projects.”⁹⁰ Additionally, Section 1(c) of SB 1221 states that it is the “intent of the Legislature that pilot projects authorized by the Public Utilities Commission will provide lessons, including by identifying, documenting, and reporting on key challenges and successes, hurdles to customer participation, cost and affordability implications, customer satisfaction, and other outcomes concerning natural gas corporation distribution system decommissioning and electrification.” These intentions, taken in totality, provide guidance for applicants in developing their proposals and for the Commission in reviewing and approving the proposals.

⁸⁷ Code Section 662.

⁸⁸ Code Section 663(b)(2).

⁸⁹ Code Section 663(b)(6).

⁹⁰ Code Section 662(a), subsections (1) through (4).

The Commission will consider how the pilots address these priorities both individually and as a group.

6.6. Senate Bill 410 Compliance

The Sempra Utilities seek an exemption from the energization timelines established in D.24-09-020 due to the “special circumstances of approvals and funding related to the pilot program.”⁹¹ CUE recommends the development of workplans to demonstrate compliance with average and maximum energization timelines adopted in R.24-01-018.⁹² CUE asks the Commission to require participating dual-fuel utilities to take actions to demonstrate compliance with certain provisions of SB 410. First, CUE recommends the Commission require the utilities to provide a workplan to demonstrate that their pilots will comply with the energization timelines established in R.24-01-018, the proceeding the Commission opened to implement SB 410; second, CUE suggests the Commission require the utilities to file an addendum to the workforce development plans required by Section 935 and set in place by SB 410.⁹³

This decision denies the Sempra Utilities’ request for an exemption from the energization timelines established in D.24-09-020. Exemptions or exceptions to those timelines are more properly sought in R.24-01-018. This decision does not address CUE’s recommendations because they are outside the scope of this proceeding and should properly be addressed in R.24-01-018.

⁹¹ Sempra Utilities Opening Comments at 32.

⁹² CUE Opening Comments at 8.

⁹³ CUE Opening Comments on Second Amended Scoping Memo at 8.

7. Coordination Among Stakeholders

7.1. Information Sharing and Confidentiality Concerns

SoCalGas and SDG&E express concern that the Commission's existing privacy decisions require utilities to minimize the customer data that they share without explicit customer consent and request that the Commission provide detailed direction regarding data sharing and coordination.⁹⁴ SoCalGas and SDG&E suggest that current policy and law could present impediments around all types of data sharing; for example, they imply that the gas utility must obtain customer consent before sharing the customer's contact information with potential partners such as local governments, CBOs, or the like.⁹⁵

Outreach and engagement efforts may require utilities to share confidential customer contact information with coordinating entities. The utilities shall exercise prudence in determining with whom they share this information and take all legally appropriate steps to safeguard the data, in compliance with relevant law and Commission rules. In addition, utilities shall develop and execute nondisclosure agreements (NDAs) with the coordinating entities as necessary. Utilities may look for guidance from other Commission decisions on programs such as the Energy Savings Assistance Program or the Community Help and Awareness of Natural Gas and Electric Services (CHANGES) program where utilities coordinate with CBOs for outreach purposes.

7.2. Coordinating Entities

Code Section 663(b)(7) obligates the Commission to set a requirement that "gas corporations and electrical corporations, local publicly-owned electric

⁹⁴ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 11 to 12.

⁹⁵ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 16.

utilities, load-serving entities, local governments, and, if feasible, core transport agents affected by the pilot project coordinate and collaborate.”

CCR REN, Elk Grove, and LGSEC recommend that the gas utilities hold regular coordination meetings to convene all the organizations serving the pilot regions (e.g., public and investor-owned utilities, local governments, core transport agents, CBOs, organizations that provide workforce education and training).⁹⁶ Some parties refer to these meetings as a Technical Advisor Committee, and most suggest that this process should begin during the project development phase and carry through the implementation phase.⁹⁷ SoCalGas and SDG&E agree that gas utilities should conduct early and active outreach to local stakeholders.⁹⁸

San Francisco recommends that the utilities demonstrate that there is indicated interest from a local organization (i.e., local government, CBO, etc.) for each project in their applications.⁹⁹

San Francisco recommends that each application should include a list of identified (i.e., confirmed) project partners, and SoCalGas and SDG&E recommend documenting whether the gas utility has engaged with local governments or other local organizations.¹⁰⁰

⁹⁶ CCR REN Opening Comments on Second Amended Scoping Memo at 2 to 3.

⁹⁷ CCR REN Opening Comments on Second Amended Scoping Memo at 2 to 3; Elk Grove Opening Comments on Second Amended Scoping Memo at 5 to 6; LGSEC Motion for Party Status at 2.

⁹⁸ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 12 to 13.

⁹⁹ San Francisco Opening Comments on Second Amended Scoping Memo at 1.

¹⁰⁰ San Francisco Opening Comments on Second Amended Scoping Memo at 2; SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 8.

San Francisco recommends that local organizations should have a point of contact at the utilities and be able to propose pilot programs during the project planning process; they also recommend that organizations that suggest projects should be committed to supporting the implementation of any pilots they propose.¹⁰¹

Southwest Gas asserts that electric and gas utilities must coordinate their outreach to ensure consistency and efficacy of their communications and that this coordination must begin at project onset and continue throughout.¹⁰² This requirement applies to customer communications as well as efforts to coordinate with community partners, coordinators, and other stakeholders; the requirement also holds true for both the project identification and implementation phases.¹⁰³

D.25-12-042 required SDG&E, SoCalGas, PG&E and Southwest Gas to provide reports on the outreach required by the decision and to submit proposals for ongoing outreach beyond April 1, 2026. PG&E's outreach plans include creating a standardized tracking process for interested potential collaborators and potential projects, a project screening framework pending stakeholder input and CPUC direction, and a method to inform potential collaborators about potential projects in their area.¹⁰⁴

This decision requires pilot applicants to engage with local entities to ensure they are aware of the proposed pilot projects and can contribute as appropriate. This decision further requires the large gas utilities to develop a method to advertise the existence of the pilot program on their SB 1221

¹⁰¹ San Francisco Opening Comments on Second Amended Scoping Memo at 3 to 4.

¹⁰² Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 6.

¹⁰³ Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 9.

¹⁰⁴ PG&E Senate Bill 1221 Information Session Report at 20.

webpages; to inform local partners about the program and describe how they can apply to participate or provide input; and to develop a standardized internal process for tracking and following up on expressions of interest they receive.

Applications should document the utilities' outreach efforts, specifying to whom they reached out, at what frequency, how the outreach was conducted, forms of communication used, and what response was received. That is, the application shall include sufficient detail for the Commission to assess whether the outreach was conducted in good faith, timely, complete, and coordinated with local entities. Applications shall list the local entities with whom the applicants are coordinating and include any letters of support.

This decision requires applications to include a description of how the gas corporation will keep coordinating entities, the community, and other relevant stakeholders up to date on the pilot implementation process and provide them opportunities to give input into the process.

8. Obtaining Consent and Outreach Requirements

8.1. Two-Step Process to Obtain Property Owner Consent

Code Section 663(b)(4) obligates the Commission to set a requirement that "no less than 67 percent of the property owners with natural gas service within the pilot project boundary consent to the pilot project" and for notifications about the pilot project to "include information about the anticipated costs and benefits of the zero-emission alternative offering."

SoCalGas and SDG&E request that the Commission provide gas utilities with clear guidance about how applicants should demonstrate that 67 percent of the impacted property owners consent to the project.¹⁰⁵

¹⁰⁵ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 13.

Cal Advocates and San Francisco recommend that each application should include a demonstration that the owners of 67 percent or more of the properties have consented to the project (as opposed to seeking authorization that is conditioned on later obtaining property owner consent).¹⁰⁶ SoCalGas and SDG&E recommend that gas utilities not be required to make this showing until after the Commission provisionally approves the pilot projects.¹⁰⁷

SoCalGas and SDG&E and Southwest Gas recommend that utilities seeking final project approval should include a description of the consenting and non-consenting customers.¹⁰⁸

This decision requires applications to include non-binding expressions of interest from no less than 67 percent of the property owners with natural gas service within the pilot project area . Once the Commission approves a pilot, the gas corporation shall obtain binding consent documents from the owners of 67 percent or more of the properties before investing capital.

The applicant can decide the exact form of the non-binding expressions of interest, but the applicant must provide the following information to the property owners before asking them to express interest: an overview of the pilot program (including the appliances and home remediation services offered), the obligations and requirements participating in the pilot would impose on the property owner, the estimated impact of the pilot on the affected customers' or tenants' bills, the anticipated costs and benefits of the zero-emission offering, and

¹⁰⁶ San Francisco Opening Comments on Second Amended Scoping Memo at 1; Cal Advocates Opening Comments on Second Amended Scoping Memo at 7.

¹⁰⁷ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 10.

¹⁰⁸ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 10; Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 4.

a high-level project timeline. The applicant shall make clear to the property owners that the initial expression of interest is non-binding and that the participant may withdraw their expression of interest until they execute a binding notarized consent agreement.

Once the Commission has approved a pilot, the applicant shall obtain binding notarized consent agreements from the properties owners as described above before beginning building remediation work or removing existing appliances in properties where the ZEA is to be implemented. Prior to obtaining binding consent agreements, the gas corporation shall provide the property owners updated information about the pilot, including a summary of the appliances and services the applicant will provide, timelines, installation logistics, gas service discontinuation processes, estimated bill impacts, and the obligations and responsibilities that participation would impose on the property owner and, if applicable their tenants.

Finally, the various forms of property ownership, as well as property-specific agreements, may impose different legal requirements regarding who may execute a binding agreement on behalf of the property owner. The applicant must obtain and retain sufficient documentation to demonstrate how it determined that a given individual or entity is the property owner and that the signatory to the consent agreement is authorized to act on behalf of the property owner. Once the applicant has obtained consent from the owners of 67 percent or more of the properties in the pilot project area and has determined to move forward with the project, the applicant shall file and serve a Tier 1 Advice Letter containing copies of the binding consent agreements obtained from the property

owners.¹⁰⁹ The applicant shall file this advice letter before investing capital in work as part of the pilot project.

8.2. Outreach and Engagement

The following sections and Appendix A describe the outreach responsibilities of the applicant before, during, and after pilot implementation. These responsibilities are presented for three groups listed in SB 1221: property owners, affected customers, and master-metered tenants. Where the affected customer is different from the property owner, the applicant shall conduct outreach to both the property owner (for consent and decision-making purposes) and the affected customer or master-metered tenant (for service-related and impact-related information) to meet the statutory requirements.

8.2.1. Notification and Engagement Requirements for Property Owners and Affected Customers

Code Section 663(b)(4) requires the Commission to ensure that notifications about the pilot project are provided to both property owners and affected customers. While the statute expressly requires that no less than 67 percent of the property owners with natural gas service within the project boundary consent to the pilot, it separately mandates that notifications be provided to both property owners and affected customers and that such notifications include information about the anticipated costs and benefits of the zero-emission alternative offering and be made available in the zone's prevailing languages.

SoCalGas and SDG&E ask whether the utility should engage with stakeholders other than property owners; whether the utility should be required

¹⁰⁹ The applicant does not need to include the executed agreements, just a representative example (or examples) of the types of documents that were presented to the property owners.

to obtain consent from both the property owner and all impacted customers (they argue yes); and, how the utility should engage with customers when the property owner consented to the project but the customers do not wish to participate.¹¹⁰ SoCalGas and SDG&E express significant concern about the legal risks and logistical challenges associated with moving forward with the project in cases where the customer does not support the project.¹¹¹

As discussed below, statute requires the Commission to ensure that affected customers and tenants of master-metered properties (i.e., not just property owners) are notified and engaged with. This decision addresses the utility's responsibilities in that area in subsequent sections.

This decision does not adopt the Sempra Utilities' suggestion to require applicants to obtain consent from both the property owner and affected customers because the plain language of SB 1221 requires consent only from property owners. SB 1221 explicitly recognizes that the pilot project areas will include customers who are not property owners (e.g., tenants in master-metered properties), so it is clear that SB 1221 consent requirements were deliberately constructed.

Regarding scenarios where a property owner consents but the affected customer or tenant does not support the pilot project, the applicant should nonetheless attempt to communicate with the affected customer or tenant to coordinate project implementation, as well as the property owner. It will be the property owner's responsibility to facilitate access to the property for applicable installations.

¹¹⁰ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 12 to 14.

¹¹¹ SoCalGas and SDG&E Opening Comments on Second Amended Scoping Memo at 13 to 14.

We would expect applicants in developing proposed pilots to take into consideration how customer support could affect pilot viability and encourage them to foster and assess customer interest and to describe their customer engagement efforts in their applications.

8.2.2. Notification and Engagement Requirements for Tenants of Master-Metered Properties

Code Section 663(b)(5) obligates the Commission to set a requirement for “addressing master-metered properties to ensure tenants receive adequate notification and engagement.”

CCR REN asserts that tenants in master-metered properties should receive the same treatment as non-master metered customers.¹¹² San Francisco recommends that the gas utilities coordinate with property managers to conduct outreach to tenants.¹¹³

This decision requires applicants to notify and engage tenants of master-metered properties using, to the extent possible, the same methods they would use to contact property owners or affected customers (e.g., mailing notices to the service address, delivering door hangers, or posting notices in common areas). Utilities shall coordinate with property owners and managers to support tenant notification for master-metered properties. Gas corporations shall provide evidence in their applications that property owners of master metered properties provided the utility with reasonable access to their properties to allow for tenant notification.

¹¹² CCR REN Opening Comments on Second Amended Scoping Memo at 4.

¹¹³ San Francisco Opening Comments on Second Amended Scoping Memo at 8.

8.2.3. Outreach Content, Delivery Method, and Timing

San Francisco recommends providing an overview of the entire program and its key elements.¹¹⁴

San Francisco recommends providing potential participants with loaner cooktops to test induction cooking to address concern over the quality and use of electric cookware.¹¹⁵

San Francisco recommends providing potential participants with the contact information for utility representatives as well as web sites that share additional information.¹¹⁶

Cal Advocates, CforAT, and Elk Grove recommend the gas utilities provide impacted customers with detailed information about both the project's financial cost and benefits (e.g., bill impacts and house remediation costs and benefits);¹¹⁷ CforAT also suggests communicating the project's anticipated public health benefits (e.g., reduced medical costs due to air quality improvements).¹¹⁸ Elk Grove agrees and suggests also including information about available incentives, rebates, and subsidies as well as a description of the potential increase in property value, comfort and appliance efficiency and community-level benefits such as job creation.¹¹⁹ San Francisco and Elk Grove recommend providing an overview of the timeline with key milestones (e.g., construct start,

¹¹⁴ San Francisco Opening Comments on Second Amended Scoping Memo at 4.

¹¹⁵ San Francisco Opening Comments on Second Amended Scoping Memo at 4.

¹¹⁶ San Francisco Opening Comments on Second Amended Scoping Memo at 4.

¹¹⁷ Cal Advocates Opening Comments on Second Amended Scoping Memo at 3; CforAT Opening Comments on Second Amended Scoping Memo at 4; Elk Grove Opening Comments on Second Amended Scoping Memo at 3.

¹¹⁸ CforAT Opening Comments on Second Amended Scoping Memo at 4.

¹¹⁹ Elk Grove Opening Comments on Second Amended Scoping Memo at 7 to 8.

expected service interruptions.)¹²⁰ CforAT suggests this information could increase public support for the projects.

Elk Grove and Southwest Gas recommend that notifications should include a description of the responsibilities of each party (i.e., the gas utility, electric utility, etc.) so that all stakeholders understand their role in the process.¹²¹

Elk Grove recommends that notifications should include contact information for utility representatives, technical assistance, multilingual materials and translation services.¹²²

Southwest Gas recommends that notifications should describe all of precursor work that must be done to enable electrification (e.g. home remediation, electrical upgrades, etc.).¹²³

Southwest Gas recommends that notifications should list any sources of non-ratepayer funding.¹²⁴

Southwest Gas suggests that all notifications should clearly describe how the customers can opt into, voice support for, raise concerns about, or oppose the potential projects.¹²⁵

CforAT recommends that all communications should be designed with a priority on making the communications simple to understand. CforAT

¹²⁰ San Francisco Opening Comments on Second Amended Scoping Memo at 7; Elk Grove Opening Comments on Second Amended Scoping Memo at 7 to 8.

¹²¹ Elk Grove Opening Comments on Second Amended Scoping Memo at 8; Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 8.

¹²² Elk Grove Opening Comments on Second Amended Scoping Memo at 7 to 8.

¹²³ Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 8.

¹²⁴ Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 8.

¹²⁵ Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 8.

recommends in-language outreach and the use of accessible formats, using multiple trusted and neutral sources, not relying exclusively on digital communications, using plain language (i.e., avoiding jargon and legal language to the extent possible), and developing community-specific approaches rather than boilerplate text or standardized templates.¹²⁶ Elk Grove supports specific messaging tailored toward disadvantaged, vulnerable, and non-English speaking communities.¹²⁷ Cal Advocates and Elk Grove, in a similar vein, recommend that each pilot application should include evidence that the affected customers “have a clear understanding of the implications of the pilot, [the] direct costs customers will pay and changes to their total energy costs, and potential end of gas [service.]”¹²⁸

Elk Grove recommends that each application should describe how the gas utility will solicit, incorporate, and respond to community input.¹²⁹

Elk Grove recommends delivering notifications to customers during the application development and planning phase, once projects are proposed and approved, before work begins, and at other key milestones.¹³⁰

Appendix A lists the notification requirements this decision imposes on applicants. As described in Appendix A, applicants must provide notification and information to property owners, affected customers, and master-metered tenants at certain points throughout the pilot development and implementation

¹²⁶ CforAT Opening Comments on Second Amended Scoping Memo at 4 to 5.

¹²⁷ Elk Grove Opening Comments on Second Amended Scoping Memo at 8.

¹²⁸ Cal Advocates Opening Comments on Second Amended Scoping Memo at 3; Elk Grove Opening Comments on Second Amended Scoping Memo at 3.

¹²⁹ Elk Grove Opening Comments on Second Amended Scoping Memo at 3.

¹³⁰ Elk Grove Opening Comments on Second Amended Scoping Memo at 9.

process, including during the project development phase; once consent has been obtained from property owners; and on an ongoing basis once implementation work begins. The discussion below provides more detailed description of the information applicants must provide.

The Overview of the SB 1221 Pilot Program and Project Proposal must include:

- An overview of the origin and purpose of the program.
- A map of the pilot project area.
- A timeline of key events that impact that individual (e.g., the estimated window during which home remediation will start/end, the estimated time window during which appliance replacement will start/end).¹³¹
- A clear statement that the projects are irreversible and natural gas service will not return.

The Costs and Benefits of the Proposed Project must include:

- A description of the project the applicant proposes that will affect the stakeholder, including a list of the replacement appliances that the property owner will be able to choose from and information on the warranty or performance guarantees and the value of those appliances; the home remediation services the applicant will provide and the cost of those services.
- An estimate of the one-time and ongoing costs that the contacted individual will have to pay for, including individualized bill estimates.

The applicant must also provide contact information for an individual who can answer questions about the pilot and an opportunity for the contacted

¹³¹ Recognizing there will be uncertainty in timing because the Commission must approve the pilots before implementation, the timelines could use "Commission approval of pilot" as an anchor date.

individual to provide feedback. This should include the dates and times for any planned community forums and direct engagement, and, unless the applicant finds a better approach to soliciting feedback, a project-specific email address to which the contacted individual can write and provide their feedback.

This information must be provided in clear, simple language to ensure customers understand the obligations and requirements of the program. Furthermore, communications must be available in the prevailing languages of the pilot project area.

The requirements above ensure that the applicants will meet the statutory obligations regarding the timing and recipients of information and that property owners, affected customers, and tenants of master-metered properties have opportunity to understand and comment on the proposed projects.

8.2.4. Documentation of Outreach

Southwest Gas recommends that gas utilities maintain thorough records of all the customer outreach (e.g., mail sent, public meetings held, door hangers distributed, etc.) during the project identification process; they further recommend that gas utilities continue this documentation during the implementation process and include all these records to support any pilot evaluation process.¹³² Cal Advocates agrees, stating that the pilot administrators should track customer approval through and beyond the pilot period, noting that SB 1221 states the pilots will provide value by documenting the pilots' key challenges and successes. Cal Advocates asserts that a multi-year satisfaction survey of pilot participants will provide insight into the customer-reported benefits and drawbacks of the pilots and inform future decarbonization

¹³² Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf page 6.

activities.¹³³ CCR REN recommends funding CBOs to document engagement activities.¹³⁴

The applicant shall document their pre-application outreach by including in their application the copies of their outreach materials and summaries of engagement activities described in Appendix A. After project implementation begins, the applicant shall document their outreach by filing and serving Tier 1 Advice Letters each year on November 1. These advice letters shall contain the materials identified in Appendix A.

8.2.5. Outreach by Coordinating Entities and CBOs

CforAT recommends the utilities work with community-based organizations that support communities with high rates of asthma, poor air quality, and larger populations of disabled residents and/or residents enrolled in the medical baseline program.¹³⁵ CforAT recommends the gas utilities conduct initial outreach to these organizations during the project identification phase and expanded outreach, including offers of financial support, during the implementation phase.¹³⁶ San Francisco and CCR REN also support working with CBOs, RENs, and local governments – whichever is the trusted messenger appropriate to the community – to conduct community and customer engagement.¹³⁷

¹³³ Cal Advocates Opening Comments on Second Amended Scoping Memo at 12 to 13.

¹³⁴ CCR REN Opening Comments on Second Amended Scoping Memo at 4.

¹³⁵ CforAT Opening Comments on Second Amended Scoping Memo at 2 to 4.

¹³⁶ CforAT Opening Comments on Second Amended Scoping Memo at 2.

¹³⁷ CCR REN Opening Comments on Second Amended Scoping Memo at 4; San Francisco Opening Comments on Second Amended Scoping Memo at 7.

CCR REN and CforAT recommend that the gas utilities provide financial support to CBOs to ensure they have sufficient resources for community engagement.¹³⁸

This decision recognizes that CBOs and other nonprofits can be an important resource for effective and trusted outreach, but CBOs may not be available or appropriate for every pilot at every stage. This decision authorizes applicants to fund CBOs as necessary and prudent to support the notification, outreach, and engagement requirements established in this section and in Appendix A.

8.3. Authorization to Establish Memorandum Accounts for Administrative and Outreach Costs

This decision authorizes the gas corporations that plan to file an application to implement pilot projects to establish a memorandum account to record the administrative and outreach costs they incur in the course of developing their application. Gas utilities that develop pilot proposals shall establish subaccounts for each of the pilot projects they propose and allocate the administrative and outreach costs to specific pilot projects, to the extent possible. Applicants may request a reasonableness review of those pilot development costs in their applications. These memorandum accounts serve the ratepayer interest because, without these accounts, utilities may not be willing to conduct outreach or provide funding to coordinating entities (e.g., CBOs) that would advance the goals of this pilot program.

Applications shall describe how the applicant plans to distinguish between administrative and outreach costs that can be attributed to individual pilot

¹³⁸ CCR REN Opening Comments on Second Amended Scoping Memo at 4; CforAT Opening Comments on Second Amended Scoping Memo at 2.

projects (and how the applicant will allocate those costs to individual pilots) and administrative costs that cannot be attributed to individual pilot projects.

This decision does not authorize the gas corporations to establish memorandum or balancing accounts to record the costs of project implementation. The applications may include a request to establish accounts to record project implementation costs.

9. Cost Effectiveness

Code Section 663(a) requires the Commission to ensure that the pilot program “facilitates the cost effective decarbonization of priority neighborhood decarbonization zones.” Code Section 663(b)(2) requires the Commission to establish “[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,” and further elaborates that “[the] total cost incurred by the gas corporation for the zero-emission alternative shall be less than the total cost that would have otherwise occurred.” The same code section clarifies that while non-energy benefits may be considered in prioritizing pilot projects, the Commission shall not use them to calculate cost effectiveness.

Accordingly, the Commission must define how cost effectiveness should be calculated for purposes of project eligibility, including which costs and benefits should be included in that test.

9.1. Net Present Value and Discount Rate

Cal Advocates, the Joint CCAs, Indicated Shippers, PG&E, the Sempra Utilities, SCE, the Sierra Club and NRDC, and TURN all support the use of net-present value calculations to calculate projects’ cost effectiveness but have different perspectives on the appropriate discount rate to use. The two bookends

are a societal discount rate (which is lower and meant to represent the customer's time-value of money) and the utility's weighted average cost of capital (WACC, which is higher and more closely represents the utility's time-value of money). The Sierra Club and NRDC recommend the Commission adopt a societal discount rate, while TURN suggests the Commission use a number closer to the utility's WACC.¹³⁹

This decision determines that cost effectiveness will be calculated by comparing the net present value of the avoided gas investments and maintenance to the costs of implementing the zero-emission alternative for affected customers. This calculation does not include the change in participants' total energy costs.

Public Utilities Code Section 663(b)(2) directs the Commission to compare the costs incurred by the gas corporation for the zero-emission alternative against the costs that otherwise would have been incurred for replacement, repair, or continued operation of the affected gas asset. Consistent with statute, this cost effectiveness framework focuses on utility-incurred costs rather than total customer energy costs. Accordingly, this NPV calculation does not include changes in participants' total energy bills, because those costs are not borne by the utility.

Both the NPV of avoided-gas infrastructure calculation and the NPV of the ZEA pilot cost calculations will use the applicant's weighted average cost of capital (WACC) as the discount rate, because the WACC more accurately reflects the utility's opportunity cost of financing proposed projects and its time value of money than would an alternative discount rate, such as societal discount rate.

¹³⁹ Sierra Club and NRDC Opening Comments on Second Amended Scoping Memo at 23, TURN Opening Comments on Second Amended Scoping Memo at 17.

CPUC precedents and guidance documents have expressly used and endorsed using the WACC as the discount rate in NPV calculations.¹⁴⁰

Because one objective of SB 1221 is to evaluate the cost effectiveness of different decarbonization approaches, it is appropriate to assess cost effectiveness at the level of individual pilots rather than across an applicant's entire pilot portfolio.

9.2. Cost Effectiveness With and Without Administrative Costs and Funds from Non-Ratepayer Sources

The applicant shall conduct four cost effectiveness calculations: one calculation that excludes costs funded by sources other than ratepayers and excludes costs for project administration and outreach; one calculation that includes costs funded by sources other than ratepayers and excludes costs for project administration and outreach; one calculation that excludes costs funded by sources other than ratepayers and includes costs for project administration and outreach; and, one calculation that includes costs funded by sources other than ratepayers and also includes costs for project administration and outreach. The final determination of cost effectiveness should be based on the calculation that excludes costs funded by non-ratepayer sources and excludes administrative

¹⁴⁰ See D.12-05-015 (Energy Efficiency), D.10-12-024 (Demand Response), and D.16-06-007 (Distributed Energy Resources). This topic is further addressed in the "Application of Discount Rates" workshop materials presented by Commission staff and Synapse in 2025.

and outreach costs.¹⁴¹ The remaining calculations will help determine whether the proposed pilot could be cost effectively replicated at scale.¹⁴²

9.3. Costs Included in Cost Effectiveness Calculation

Applicants shall include the net present value of the following costs in their cost effectiveness calculations: the cost of purchasing and installing zero-emission alternatives (e.g., new electric appliances); the cost of providing the property remediation services that are necessary to support any new appliances (e.g., service panel upgrades, pans compatible with induction stoves); the cost of incremental electric infrastructure made necessary by the pilot project (both customer-sited and utility-owned) that could not be mitigated by load management devices or other strategies to minimize grid upgrades; and, gas infrastructure decommissioning costs. The applicant shall calculate the NPV of the BTM costs under the assumption that the Commission approves the amortization period the applicant requested (discussed in the following section).

The eligible costs represent the incremental costs attributable to a specific pilot project that are borne by either the gas utility that is losing customers or the electric utility (or utilities) that will see increased load. The eligible costs are the costs that either the applicant or the electric utility will incur specifically because of the pilot project and will be passed on to all utility customers.

Applicants shall exclude the following costs from their cost effectiveness calculations: any forecasted operations and maintenance for the replacement

¹⁴¹ In each of these scenarios, the applicant should only include the administrative and outreach costs attributable to the specific pilot project, using the methodology developed and described pursuant to Section 8.3.

¹⁴² The following example illustrates the intended approach: consider a project with total costs of \$120 and benefits of \$100. If the utility were able to secure \$40 of funding from non-ratepayer sources, the final determination of cost effectiveness would be $\$100 / (\$120 - \$40)$, or 1.25.

appliances, end-of-life replacement of the new appliances, and the cost of electric infrastructure upgrades that would have occurred without the pilot project. The operations, maintenance, and replacement costs for the eventual replacement of the appliances provided through the pilot project will not be paid for by the gas utility and thus should not count toward the cost-effectiveness calculation, as it is calculated from the utility's point of view. Electric infrastructure upgrades that would otherwise have occurred – even if they are necessary to enable to the pilot project – should not count toward the project's costs because the electric utility's customers would have borne those costs even without the pilot project. Gas corporations shall explain in their application how they determined which electric infrastructure costs would have already be incurred (e.g., Did the electric utility already set aside funding for the project? Did the electric utility include the project in one of its planning processes, either public or internal?).

While the commission does not require applicants to include administrative and outreach costs in their cost effectiveness calculations, the Commission directs utilities to limit their administrative and outreach costs to no more than 10 percent of each pilot's cost unless the applicant requests and the Commission approves a case-by-case exemption. The Commission will address the methodology to allocate shared administrative and outreach costs to individual pilots at a later point in this proceeding.

Discussed in more detail below, the Commission intends to authorize a shareholder incentive mechanism in which the utility's shareholders, under certain conditions, would retain a portion of the savings from the pilot project. The applicant should not include any shareholder incentive payments as a cost in the cost effectiveness calculation. Since the shareholder incentive would be a proportion of the realized savings, the incentive would only apply in cases where

the pilot project was expected to be cost effective and would, by design, never cause an otherwise cost-effective pilot not to move forward.

9.4. Benefits Included in Cost Effectiveness Calculation

The financial benefits of a pilot project come from the avoided costs that would otherwise be necessary for gas infrastructure that is being decommissioned as part of the project. Accordingly, applicants shall include the net present value of the following benefits in their cost effectiveness calculations: the gas infrastructure capital investments and operational and maintenance costs the utility would otherwise have incurred, if not for the proposed project. These benefits represent part of the avoided revenue requirement that the gas utility would otherwise have to collect from its customers if not for the proposed project.

As in the previous section, eligible benefits represent the one-time and recurring costs that will be avoided because of the specific pilot project that would be borne by the gas utility.

Applicants shall calculate avoided gas infrastructure costs using the template developed by Energy Division staff and made available on the SB 1221 Implementation webpage. This template will incorporate district average costs, systemwide costs, and the utility's weighted average cost of capital to provide a transparent method to calculate avoided costs. The Commission will notify the service list when this template is made available and provide parties with an opportunity to provide comment. In addition to providing cost estimates developed using Energy Division's template, if the applicant asserts that a particular project's costs are expected to be significantly different from district averages, the applicant may also include a project-specific avoided gas

infrastructure cost estimate with a verifiable rationale and all supporting data to show why the avoided gas project costs are expected to be significantly different.

10. Cost Recovery

Pub. Util. Code Section 663(b)(8)-(9) directs the Commission to establish

“[a] requirement that gas corporations recover costs related to the pilot projects that are deemed just and reasonable and a requirement that prohibits a gas corporation from recovering behind-the-meter costs associated with the pilot projects as capital costs that are afforded a rate of return,” and

“[the] appropriate rate of return and recovery period that a gas corporation is eligible to receive for its costs to implement a zero-emission alternative. A gas corporation shall not receive ratepayer funding for the costs of a zero-emission alternative that are covered by incentives under federal, state, or local laws.”

PG&E, SCE, the Sempra Utilities, the Sierra Club and NRDC, and Southwest Gas all support treating BTM costs as regulatory assets that could earn a rate of return.¹⁴³ PG&E, the Sierra Club and NRDC, and the Sempra Utilities point to the Commission’s Mobile Home Park (MHP) program as precedent; SCE states that regulatory asset treatment would minimize near-term rate impacts; and Southwest Gas states that this approach is not prohibited by SB 1221. CUE and Indicated Shippers argue that the MHP program is not analogous to this pilot program because SB 1221 contains an explicit statutory prohibition on earning a rate of return, while the MHP program does not.

¹⁴³ PG&E Opening Comments on SB 1221 Ruling at 7, SCE Opening Comments on SB 1221 Ruling at 4, Sempra Utilities Opening Comments on SB 1221 Ruling at 5, Sierra Club and NRDC Opening Comments on SB 1221 Ruling at 5, Southwest Gas Opening Comments on SB 1221 Ruling, Attachment A at 5.

CUE, Indicated Shippers, SBUA, and TURN all oppose treating BTM costs as regulatory assets that earn a rate of return, stating that this approach is explicitly forbidden by Code Section 663(b)(8).¹⁴⁴

TURN proposes that the Commission authorize gas utilities to treat BTM costs as expenses but allow utilities to amortize the costs over the average useful life of the BTM measures and to recover the cost of financing the amortized expense. In other words, if a utility were to amortize a \$100 expense over five years and incurred \$5 in interest costs each year for financing that amortization, the utility could recover \$25 (\$20 in direct costs and \$5 in financing costs) annually for five years. TURN recommends setting financing costs as either the interest rate for the memorandum account to which the costs are recorded or the utility's authorized cost of debt.¹⁴⁵

SCE supports an amortization period of ten to fifteen years; PG&E, the Sempra Utilities, and the Sierra Club and NRDC recommend ten years; and Southwest Gas recommends case-by-case amortization periods.¹⁴⁶

10.1. Authorized Return and Recovery Period for Pilot Project Expenditures

Code Sections 663(b)(8) and 663(b)(9) prohibit gas corporations from recovering behind-the-meter costs as capital costs, but requires the Commission to determine the rate of return the gas corporation is eligible to receive for its

¹⁴⁴ CUE Opening Comments on SB 1221 Ruling at 6, Indicated Shippers Opening Comments on SB 1221 Ruling at 11, SBUA Opening Comments on SB 1221 Ruling at 4, TURN Opening Comments on SB 1221 Ruling at 5.

¹⁴⁵ TURN Opening Comments on SB 1221 Ruling at 4.

¹⁴⁶ SCE Opening Comments on SB 1221 Ruling at 4, PG&E Opening Comments on SB 1221 Ruling at 10, Sempra Utilities Opening Comments on SB 1221 Ruling at 5, Sierra Club and NRDC Opening Comments on SB 1221 Ruling at 5, Southwest Gas Opening Comments on SB 1221 Ruling, Attachment A at 6.

costs incurred to implement the zero-emission alternative and the appropriate recovery period for all the costs incurred to implement the zero-emission alternative, including behind-the-meter costs.

Some of the activities that the gas and electric utilities will undertake to implement these pilots are part of their business-as-usual operations: the gas utilities' core responsibilities include evaluating the need for infrastructure upgrades and decommissioning gas infrastructure they no longer intend to use. Similarly, the electric utilities continuously plan for load growth and upgrade infrastructure to accommodate that planned growth. The Commission has established mechanisms for utilities to record and recover those costs and, in some cases, earn a rate of return on those expenditures.

The activities unique to these pilots include the application development process, pilot administration, outreach and engagement costs, behind-the-meter activities, and pilot evaluations. SB 1221 prohibits the gas utilities from recovering behind-the-meter costs as capital costs afforded a rate of return, and the remaining pilot-specific activities (e.g., outreach) are traditionally treated as operating expenses. Accordingly, this decision does not authorize utilities to earn their authorized rate of return on BTM capital costs. As the cost of the behind-the-meter activities may be significant and may vary between pilots, this decision adopts a variant of TURN's proposal: applicants shall record BTM costs as expenses and may propose to amortize those costs over a period of no more than ten years. Applicants may propose to recover financing costs for BTM assets at either the interest rate of the account to which the BTM costs are recorded or at the utility's authorized cost of debt.

Accordingly, this decision authorizes the applicants to, in their applications, request authority to establish balancing accounts to record the costs

incurred for BTM work during pilot implementation. The application shall propose and justify a cap on expenditures based on the forecasted costs of the ZEA implementation (including financing costs based on the appropriate cost of debt) and shall propose to expense the costs or recover the costs over an amortization period proposed by the applicant.

This approach meets the statutory requirements and comports with existing ratemaking guidance.

10.2. Shareholder Incentive Based on Avoided Costs

The Commission intends to establish a performance-based shareholder incentive mechanism to provide incentives for gas corporations to pursue pilot projects, consistent with statutory goals. The incentive should encourage utility participation in pilot programs by offering an opportunity to earn shareholder awards up to a set percentage of the pilots' actual cost savings, based on the project's realized savings and the effective implementation of the pilot. The Commission will further develop this incentive mechanism in track 4 of this proceeding. The shareholder incentive proposed here is specific to the pilot projects subject to this pilot program, and the performance-based shareholder incentive mechanism proposed herein is to encourage utilities to pursue these pilots.

10.3. Priority Neighborhood Decarbonization Zone Outreach Costs

D.25-12-042 authorized the gas utilities to file a motion requesting authority to track costs associated with complying with directives of conducting outreach, hosting and recording one information session, and filing a report on these activities by April 1, 2026.¹⁴⁷ PG&E, SDG&E and SoCalGas filed motions

¹⁴⁷ D.25-12-034 at 50.

requesting to amend their respective SB 1221 Memorandum Accounts established by D.25-07-016. All utilities requested the effective date to be the date of each respective motion filing, and all propose filing a Tier 1 AL upon approval of the respective motions to start recording approved costs.¹⁴⁸

PG&E's Motion to Amend SB 1221 Memorandum Account was unopposed. Indicated Shippers recommends the Commission deny the Sempra Utilities' Joint Motion to Amend SB 1221 Memorandum Account on the grounds that it constitutes a petition for modification of D.25-07-016 as "it would alter the scope of those fully litigated and finalized decisions."¹⁴⁹ It also argues that D.25-07-016 limited costs tracked in this memorandum account to implementation of SB 1221 mapping costs and that D.25-12-042 stated "the Commission considered and rejected requests to use those existing accounts to track the costs of complying with that decision."¹⁵⁰

This decision recognizes that the utilities have unforeseen costs including annual mapping requirements and related outreach and notification. While prior decisions in the proceeding denied amending the SB 1221 Mapping Memorandum Accounts that were authorized by D.25-07-016, this decision authorizes the [gas corporations] to submit advice letters to establish sub-accounts to record to the SB 1221 Mapping memorandum accounts additional costs consisting of administrative costs and pilot program application-related outreach and notification costs, which will allow them to request cost recovery in subsequent applications. Applicants may record and request recovery of the

¹⁴⁸ PG&E Motion to Amend SB 1221 Memorandum Account, Joint Motion to Amend SB 1221 Memorandum Account.

¹⁴⁹ Indicated Shippers Response to Joint Motion to Amend SB 1221 Memorandum Account at 3.

¹⁵⁰ Indicated Shippers Response to Joint Motion to Amend SB 1221 Memorandum Account at 2.

costs they incurred in exploring or developing a project, even if the applicant did not include that project in their final application, so long as those costs were prudently incurred. Doing so advances the explicit goals of this program, thereby advancing the state and ratepayers' interests.

11. Application Submittal Process

Energy Division staff will create and post on the Commission's website an application guide that includes a checklist of the required contents of the application.

12. Data Collection, Reporting, and Evaluation

SBUA recommends that the pilot projects should collect information to help understand the needs and energy usage of small commercial customers, suggesting the California Energy Commission (CEC)'s commercial end-use survey as a model.¹⁵¹

Southwest Gas recommends collecting certain information to evaluate the pilot projects:

- Customer feedback;
- Number of impacted customers;
- Estimated vs actual outcomes for all predictions (e.g., estimated vs actual impacts to customer bills); and,
- Customer engagement frequency, method, and efficacy.¹⁵²

This decision does not establish data collection, reporting, and evaluation requirements. The Commission will address those issues in track 4 of this proceeding.

¹⁵¹ SBUA Opening Comments on Second Amended Scoping Memo at 2.

¹⁵² Southwest Gas Opening Comments on Second Amended Scoping Memo at pdf pages 5 to 6.

13. Summary of Public Comment

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the “Public Comment” tab of the online Docket Card for that proceeding on the Commission’s website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

By May 4, 2026, the Commission had received 606 comments from members of the public relevant to establishment of the SB 1221 pilot program. Commenters were individuals, as well as representatives from community organizations, local governments, and the Sacramento Metropolitan Air Quality Management District. There were comments in support of the proposed pilots, praising the potential benefits to participants’ health, improved safety, and the environment. Comments expressing opposition to the pilot program expressed concerns about an unreliable electric grid, preferences for gas appliances, and higher costs of electric appliances and of electricity as a fuel.

14. Procedural Matters

This decision affirms all rulings made by the Administrative Law Judges and assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

15. Comments on Proposed Decision

The proposed decision of Commissioner Karen Douglas in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission’s Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

16. Assignment of Proceeding

Karen Douglas is the assigned Commissioner and Andrew Dugowson is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. SB 1221 requires the Commission, on or before January 1, 2026, to designate priority neighborhood decarbonization zones considering, among other things, the concentration of gas distribution line replacement projects identified in the maps.
2. In D.25-12-042, the Commission designated the initial priority neighborhood decarbonization zones in compliance with SB 1221.
3. SB 1221 requires the Commission, on or before July 1, 2026, to establish a voluntary program to facilitate the cost effective decarbonization of priority neighborhood decarbonization zones, as defined, not to exceed 30 pilot projects across the state and affecting no more than 1 percent of each gas corporation's customers within its service territory, except as provided.
4. SB 1221 provides that it is the intent of the Legislature that the Commission authorize gas corporations to deploy a limited and targeted number of pilot projects to decommission portions of the natural gas corporation distribution system.
5. This decision establishes a voluntary neighborhood decarbonization pilot program as required by SB 1221.
6. This pilot program established by this decision complies with the requirements of SB 1221.

Conclusions of Law

1. It is reasonable to define “affected customer,” for the purposes of implementing Senate Bill (SB) 1221, as the utility account holder for a property within the project boundary.
2. It is reasonable to define “coordinating entities,” for the purposes of implementing SB 1221, as the gas corporations and electrical corporations, publicly owned electric utilities, load-serving entities, local governments, core transport agents, and community-based organizations that are based in or serve the pilot project area.
3. It is reasonable to define “gas corporation,” for the purposes of implementing SB 1221, as any gas distribution utility under Commission jurisdiction.
4. It is reasonable to define “master-metered property,” for the purposes of implementing SB 1221, as a property in which utility service is provided through a single meter to a customer of record, who then distributes, submeters, or allocates the service to multiple end users, including tenants or residents.
5. It is reasonable to define a language as a “prevailing language” in an area, for the purposes of implementing SB 1221, if at least five percent of the pilot project area’s population use the language in question and do not speak English or are unable to effectively communicate in English.
6. It is reasonable to define “property owner,” for the purposes of implementing SB 1221, as the legal owner of record.
7. It is reasonable to define “Zero Emission Alternative” (ZEA), for the purposes of implementing SB 1221, as a technology that (a) displaces the use of natural gas; (b) does not require new investment in gas distribution lines; (c) supports the pilot goal of decommissioning portions of the natural gas system;

(d) does not impede the statutory goal of enabling the gas corporation to cease providing service where the pilot has been implemented; (e) is commercially available, reliable, scalable, and safe; and (f) has zero emissions.

8. It is reasonable to require gas corporations that submit pilot proposals to demonstrate that their proposed ZEA meets these minimum requirements.

9. It is reasonable to interpret the Code Section 663(a) requirement for the Commission to establish a “voluntary program” to mean that the Commission should authorize, but not require, gas corporations to submit proposals for pilot projects.

10. It is reasonable for the Commission to require applicants to submit pilot proposals by filing and serving an application.

11. It is reasonable for the Commission to set three stages (rounds) of applications, with the first set of applications due by December 15, 2026, the second due by December 15, 2027, and the third (if confirmed by the Commission) due by July 1, 2028.

12. It is reasonable for the Commission to allocate the 30-project cap as follows: fourteen projects to the first round of applications, fourteen projects to the second round of applications, two projects to be submitted in either the first or second round, and the balance of the 30-project cap to the third round of applications.

13. It is reasonable for the Commission to allocate the 30-project cap among gas corporations proportionately to their share of demand served in 2024 according to the 2025 California Gas Report, except for one project allocated to Southwest Gas and one project allocated to the small gas utilities.

14. It is reasonable to allocate the project cap to gas corporations for implementation in the first and second round as follows: seven projects to PG&E

in the first round, seven projects to PG&E in the second round, seven projects to SoCalGas and SDG&E in the first round, seven projects to SoCalGas and SDG&E in the second round, one project to Southwest Gas across both rounds, and one project to the small gas utilities across both rounds.

15. It is reasonable for the Commission not to set restrictions on the location or geographic size of a pilot project area.

16. It is reasonable to require applicants, at a minimum, to include the following location information in their applications:

- (a) A map of the applicant's service territory showing the boundaries of all the proposed pilot projects; and
- (b) Individual maps for each proposed pilot project.

17. It is reasonable to require applicants, at a minimum, to include the following location information for each project:

- (a) List of the census tracts that overlap with the pilot project area. The application should provide each census tract's CalEnviroScreen score, DAC status, and the number of affected customers residing within it.
- (b) Number of properties inside the pilot project area (by property type).
- (c) Number of property owners in pilot project area.
- (d) Number of gas customers in the project boundary (by customer class, by enrollment in income-qualified programs).
- (e) Number of electric customers in the project boundary (by electric utility, by customer class, by enrollment in income-qualified programs).
- (f) List of the federally recognized tribal lands the project area overlaps with.
- (g) List of the areas affiliated with tribes on California's Native American Heritage Commission list.
- (h) List of prevailing languages in the pilot project area, including estimated portion of residents that speak those languages.

18. It is reasonable for the Commission to require applications to include the information in the application template that the Commission's Energy Division will post on the Commission website.

19. It is reasonable for the Commission to require pilot proposals to include the replacement of pilot participants' natural gas-fueled appliances with new appliances powered by the ZEA.

20. It is reasonable for the Commission to require any replacement appliances (1) to carry an industry-standard warranty and (2) to have federal Energy Star certification and/or comply with California's appliance efficiency standards, as adopted in Title 20 of the California Code of Regulations, if applicable.

21. It is reasonable for the Commission to require pilot proposals to include the property remediation services necessary for the applicant to install and the participant to safely and conveniently use their electric appliances.

22. It is reasonable for the Commission to require pilot proposals to include a plan to identify the existing programs that pilot participants qualify for, to present that information to the participants in a clear manner, and to assist those participants in enrolling in the programs for which they qualify.

23. It is reasonable to require first-round applications to include a discussion of how their proposed projects ensure that the substitute for gas service for low-income customers is affordable, adequate, efficient, and just and reasonable, as required by Code Section 663(b)(3).

24. It is reasonable for the Commission to require applications to include a comparison of estimated aggregate pre- and post-pilot total energy bills (i.e., combined bill for natural gas and electricity) across pilot participants as follows. Specifically, it is reasonable to require the application to include show the 25th,

50th, 75th, and 90th percentile for gross change in monthly energy bills and monthly energy use and percentage change in monthly energy bills and monthly energy use and perform the analysis for three customers: first, all customers in the pilot project area; second, for customers in the pilot project area enrolled in income-qualified programs (e.g., California Alternative Rate for Energy); and, third for customers in the pilot project area not enrolled in income-qualified programs.

25. It is reasonable for the Commission to require pilot proposals to include:

- Location and length of existing gas mains the applicant proposes to decommission
- Pipe materials and diameters
- Locations and costs associated with the gas infrastructure the pilot proposes to remove (i.e., cost of decommissioning and the cost of investment and maintenance that would be necessary but for the decommissioning)
- A map showing non-confidential energy infrastructure
- A description of the feasibility analyses the applicant deemed necessary and the results of those analyses

26. It is reasonable for the Commission to require pilot proposals to include:

- Descriptions of the electric infrastructure upgrades that the electric utility plans or expects will be necessary to provide service to the pilot project areas if the projects were not expected to occur.
- Descriptions and cost estimates of the incremental electric infrastructure upgrades that the electric utility anticipates would be necessary to provide service to the pilot project areas if the projects were to occur, if any.
- A demonstration that the project design evaluated and took advantage of all possible ways to avoid or minimize the need for upgrades to electric

infrastructure (e.g., service lines, transformers, etc.), including pursuing alternatives to service upsizing that allow the premises to fully electrify safely (i.e., without the risk of exceeding the electric service capacity of the customer premises) or why they were ruled out.

27. It is reasonable for the Commission to require, in cases where a regulated utility must share confidential data related to a pilot (whether the data is related to electric infrastructure or individual customers), that the utility should develop and execute non-disclosure agreements with the relevant parties and ensure that any data sharing is consistent with privacy law and existing Commission rules.

28. It is reasonable to require applications to include forecasts of the proposed projects' impacts on annual gas consumption and avoided GHG emissions, calculated using the Commission's Avoided Cost Calculator.

29. It is reasonable at this time for the Commission to require applications to describe how the applicant took high-road job considerations into account when developing proposals for pilot projects (including a description of any outreach to local trade organizations) but not set firm requirements or quotas in that area. This approach will inform the Commission's work to fulfill the requirements of Code Section 663(b)(6).

30. It is reasonable for the Commission not to grant pilot projects an exemption from the energization timeline requirements set in Rulemaking (R.) 24-01-018.

31. It is reasonable for the Commission to require applicants to engage with coordinating entities to ensure the coordinating entities are aware of the proposed pilot projects and can contribute as appropriate.

32. It is reasonable for the Commission to require applications to document their efforts to engage with coordinating entities in sufficient detail for the

Commission to assess whether the outreach was conducted in good faith, timely, complete, and coordinated with coordinating entities.

33. It is reasonable for the Commission to require applications to list the coordinating entities with whom the applicants are coordinating and include any letters of support.

34. It is reasonable for the Commission to require applicants to ensure that coordinating entities, the community, and other relevant stakeholders are kept up to date and can provide input into the pilot implementation process.

35. It is reasonable for the Commission to require applications to include non-binding expressions of interest from the owners of 67 percent or more of the properties in the pilot project area.

36. It is reasonable for the Commission to require an applicant, after the Commission approves a pilot, to obtain binding consent agreements from the owners of at least 67 percent of the affected properties before making capital investments toward the pilot project.

37. It is reasonable for the Commission to require the applicant, once it has obtained consent from the owners of at least 67 percent of the affected properties and determined to move forward with the project, to file and serve a Tier 1 Advice Letter containing copies of the binding consent agreements obtained from the property owners.

38. It is reasonable for the Commission to require applicants to follow the outreach, notification, and documentation requirements listed in Appendix A.

39. It is reasonable for the Commission, in cases where a property owner consents to the pilot project but an affected customer or tenant does not, to require the applicant to coordinate with the property owner to plan for and

schedule the necessary steps of the pilot, even in cases where a property owner consents to the pilot project but an affected customer or tenant does not.

40. It is reasonable for the Commission to require applicants to notify and engage with tenants of master-metered properties using, to the extent possible, the same methods they would use to contact property owners or affected customers.

41. It is reasonable for the Commission to authorize applicants to fund Community-Based Organizations as necessary and prudent to support the notification, outreach, and engagement requirements established in this section and in Appendix A.

42. It is reasonable for the Commission to authorize gas corporations that plan to file an application to implement pilot projects to establish a memorandum account to record the administrative and outreach costs they incur in the course of developing their application.

43. It is reasonable for the Commission to direct applicants to evaluate the cost effectiveness of pilot projects by comparing the net present value of the avoided gas investments and maintenance to the costs of implementing the zero-emission alternative using the applicant's weighted average cost of capital as the discount rate to account for the time value of money.

44. It is reasonable for the Commission to require applicants to include the net present value of the following costs in their cost effectiveness calculations: the cost of purchasing and installing zero-emission alternatives (e.g., new electric appliances); the cost of providing the property remediation services that are necessary to support any new appliances (e.g., service panel upgrades, pans compatible with induction stoves); the cost of incremental electric infrastructure made necessary by the pilot project (both customer-sited and utility-owned) that

could not be mitigated by load management devices or other strategies to minimize grid upgrades; and the gas infrastructure decommissioning costs.

45. It is reasonable for the Commission to require applicants to exclude the following costs from their cost effectiveness calculations: program administration costs, including any evaluation or measurement costs; any forecasted operations and maintenance for the replacement appliances; and the cost of electric infrastructure upgrades that would have occurred without the pilot project.

46. It is reasonable for the Commission to require applicants to include the net present value of the following benefits in their cost effectiveness calculations: the gas infrastructure capital investments and operational and maintenance costs the utility would otherwise have incurred, if not for the proposed project.

47. It is reasonable for the Commission to require applicants to calculate avoided gas infrastructure costs using a template developed by Energy Division staff that will be made available on the SB 1221 Implementation webpage.

48. It is reasonable for the Commission to require applicants to conduct four cost effectiveness calculations: one calculation that excludes costs funded by sources other than ratepayers and administrative costs, and three more with each of the permutations of those costs being included or excluded.

49. It is reasonable for the Commission to require applicants to limit their administrative and outreach costs to no more than ten percent of each pilot's cost unless the applicant requests, and the Commission approves, a case-by-case exemption.

50. It is reasonable for the Commission to authorize utilities to record and request recovery of the costs they incurred in exploring or developing a project, even if the applicant did not include that project in their final application, so long as those costs were prudently incurred.

51. It is reasonable for the Commission to authorize applicants to, in their applications, request authority to establish balancing accounts to record the costs incurred for behind-the-meter work during pilot implementation.

52. It is reasonable for the Commission to require applicants requesting to establish a balancing account to propose and justify a cap on pilot expenditures based on the forecasted costs of the ZEA implementation (including financing costs based on the appropriate cost of debt) and to propose an amortization period over which the applicant will recover the costs.

53. It is reasonable for the Commission to authorize applicants to record behind-the-meter costs as expenses and propose to amortize those costs over a period of no more than ten years.

54. It is reasonable for the Commission to authorize applicants to recover the costs to finance behind-the-meter work at either the interest rate of the account to which those costs are recorded or at the utility's authorized cost of debt.

O R D E R

IT IS ORDERED that:

1. Any gas distribution utility regulated by the Commission may submit neighborhood decarbonization pilot project proposals by filing an application.
 - (a) The first round of pilot project proposal applications shall be filed by December 15, 2026; the second, by December 15, 2027; and the third, if necessary, by July 1, 2028.
 - (b) Applicants shall include in their application the information and proposals required by this decision and by the application template that the Commission's Energy Division will post on the Commission's website.

2. Gas corporations that plan to file an application to implement pilot projects may file a Tier 1 advice letter to establish a memorandum account to record the administrative and outreach costs they incur in the course of developing their application.

3. Rulemaking 24-09-012 remains open.

This order is effective today.

Dated _____, at Fort Bragg, California.

Appendix A

Table A: Notification and Information Requirements

Project Phase	Information Communicated / Obtained			Communicating Entity or Entities
	<i>Property Owner</i>	<i>Affected Customer</i>	<i>Master-Metered Tenant</i>	
Prior to submitting application	Provided: - Overview of SB 1221 pilot program and project proposal - Costs and benefits of the proposed project - Costs and responsibilities that would be borne by property owner - Estimated average energy bill impact for tenants - Contact information - Feedback opportunities	Provided: - Overview of SB 1221 pilot program and project proposal - Costs and benefits of the proposed project relevant to affected customer - Estimated energy bill impact for affected customer - Contact information - Feedback opportunities	Provided: - Overview of SB 1221 pilot program and project proposal - Costs and benefits of the proposed project relevant to tenant - Estimated energy bill impact for tenant - Contact information - Feedback opportunities	Gas utility as lead, other partners as appropriate ¹⁵³
	Obtained: Property owner non-binding expression of interest	Obtained: N/A	Obtained: N/A	Gas utility
After a project is approved by the Commission	Provided: Updated information from first communication	Provided: Updated information from first communication	Provided: Updated information from first communication	Gas utility as lead, other partners as appropriate
	Obtained: Property owner signs a binding consent agreement	Obtained: N/A	Obtained: N/A	Gas utility
After 67 percent consent threshold met and on an ongoing basis as necessary	Provided: - Notification that project will move forward	Provided: - Notification that project will move forward	Provided: - Notification that project will move forward	Gas utility as lead, other partners as appropriate

¹⁵³ Other partners may include, but are not limited to, community-based organizations, non-profit organizations, local governments, etc.

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	- Updated information from first communication	- Updated information from first communication	- Updated information from first communication	
After project implementation is complete (i.e., all work on non-utility property completed)	Provided: - Notice of completion - Contact information - Feedback opportunities	Provided: - Notice of completion - Contact information - Feedback opportunities	Provided: - Notice of completion - Contact information - Feedback opportunities	Gas utility as lead, other partners as appropriate

Table B: Required Documentation of Notifications

Project Phase	Documentation Required	Submission Method and Deadline
Prior to submitting application	<ul style="list-style-type: none"> - Representative examples of outreach and communication materials - Description of outreach methods used and frequency of communications - List of information provided to property owners, affected customers, and master-metered tenants - Copies of the non-binding expressions of interest from property owners - List of local partners engaged and description of how they supported outreach - Summary of common questions or concerns raised by property owners, affected customers, and tenants 	Included in application
After a project is approved by the Commission	<ul style="list-style-type: none"> - Copies of binding consent agreements obtained from the owners of 67 percent or more of the impacted properties 	Tier 1 Advice Letter filed before investing capital
After implementation begins and on ongoing basis as necessary	<ul style="list-style-type: none"> - Copies of outreach and communication materials - Description of outreach methods used and frequency of communications - List of information provided to property owners, affected customers, and master-metered tenants - List of local partners engaged and description of how they supported outreach - Summary of common comments, questions or concerns raised by property owners, affected customers, and tenants 	Included as attachments to a Tier 1 Advice letter filed annually on November 1

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	<p>- Summary of issues or concerns that required action from applicant or local partners and how the issues were resolved</p>	
<p>After project implementation is complete (i.e., all work on non-utility property completed)</p>	<p>- Material necessary to support evaluation of the efficacy of pilot projects as required by Code Section 664(a). The Commission will provide further detail in forthcoming decisions.</p>	<p>Method and deadline to be discussed in future decisions.</p>