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**BEFORE THE PUBLIC UTILITIES COMMISSION**
**OF THE STATE OF CALIFORNIA**

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| 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.<br><br>(U 39 G) | Rulemaking No. 24-09-012<br>(Issued October 4, 2024) |

# PACIFIC GAS AND ELECTRIC COMPANY'S (U 39 G) OPENING COMMENTS ON PROPOSED DECISION ESTABLISHING APPLICATION PROCESS FOR SB 1221 NEIGHBORHOOD DECARBONIZATION PILOT PROGRAM

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Dated: June 18, 2026

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Pursuant to Rule 14.3 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E) respectfully submits its opening comments on the Proposed Decision Establishing Application Process for SB 1221 Neighborhood Decarbonization Pilot Program issued on May 29, 2026 (Proposed Decision or PD). Consistent with Rule 14.3(b), recommended changes to the PD's Findings of Fact, Conclusions of Law, and Ordering Paragraphs are listed in the attached Appendix A.

## I. INTRODUCTION.

PG&E appreciates that the Proposed Decision proposes a regulatory framework under SB 1221 for utility gas customers to voluntarily and affordably electrify their homes and businesses while avoiding utility gas infrastructure costs.[1] PG&E supported SB 1221 and continues to support electrification programs that transition the gas system in a feasible and affordable way for all customers. However, the PD creates unnecessary barriers to implement cost-effective non-pipeline alternative projects. Accordingly, PG&E requests that the Commission revise the PD as recommended below. PG&E's proposed revisions would promote customer affordability, streamlined pilot program approvals, reasonable cost recovery, and consistent implementation.

[1] SB 1221, 2024 Cal.Stats., ch.602, Section 1.

## II. PG&E'S RECOMMENDED CHANGES TO THE PROPOSED DECISION.

### A. The PD Should Authorize Utilities to Recover Their Full Costs of Financing Behind-the-Meter Electrification Costs.

Consistent with the Commission's cost-of-service ratemaking precedents under the Public Utilities Code, the SB 1221 program should support just and reasonable rates that are affordable, non-discriminatory and allow utilities to recover prudently incurred behind-the-meter (BTM) electrification costs.[2] This framework is essential for any customer program to be successful on a mass scale. Contrary to these precedents, the PD erroneously finds that "SB 1221 prohibits the gas utilities from recovering behind-the-meter costs as capital costs afforded a rate of return," and that "Accordingly, this decision does not authorize utilities to earn their authorized rate of return on BTM capital costs."[3]

Under these Commission precedents, BTM costs are classified as expense, not capital.[4] When the Commission authorizes a utility to recover expenses amortized over time to support near-term affordability and smooth out customer rate impact, it creates a regulatory asset for ratemaking purposes.[5] Public Utilities Code Section 663(b)(8) explicitly prohibits utilities from recovering BTM costs *as capital costs*. It does not, however, prohibit utilities from recovering BTM *expenses* over time via regulatory assets. Public Utilities Code Section 663(b)(9) also

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[2] See, e.g., Public Utilities Code Sections 451, 451.9, 453.

[3] Proposed Decision, p. 66.

[4] Consistent with the FERC Uniform System of Accounts, the Commission has classified expenses incurred to reimburse customers for utility programs and services such as rebates or financial incentives for in-home customer energy efficiency equipment that customers procure, install or own, as "program expenses" – not as "capital assets." 18 C.F.R. Part 101 *et seq.* The same is true of the behind-the-meter customer appliances and electrification services that SB 1221 authorizes here and which the PD correctly also classifies as "expense," not "capital." The FERC Uniform System of Accounts, Definition 31 defines Regulatory Assets and Liabilities as assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains, or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts but for it being probable:

A. that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or

B. in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required. *Ibid.*

[5] *Ibid.*

provides that the Commission shall establish an appropriate rate of return and recovery period for BTM costs. Accordingly, the Commission should enable utilities to recover their full authorized cost of capital if expenses are amortized over multiple years, consistent with the Commission's Cost of Capital decisions regarding authorized costs of capital and capital structures.[6]

As described in D.25-12-043, "the capital structure of an investor-owned utility (IOU) is the proportional authorization of shareholders' equity and debt that comprise a company's long-range financing"[7] where debt due past one year is long-term. Relatedly, the Commission's 2025 Cost of Capital decision notes that utilities must maintain a sufficient level of equity to support reasonable credit ratings and attract capital, while maintaining adequate ratepayer protections for the costs of capitalization components.[8] That is, when amortizing cost recovery over time, a utility must maintain both debt and equity to comply with its authorized capital structure. While PG&E appreciates the PD's flexibility on the amortization period of BTM costs, it is inconsistent with the Commission's cost of capital precedent. A utility cannot amortize BTM costs over multiple years while recovering only the cost of debt because that is insufficient to cover the costs of the financing that is required to maintain PG&E's overall authorized capital structure.

PG&E respectfully requests that the Commission revise the PD to correct these errors that restrict the utilities' reasonable opportunity to recover their full costs of financing SB 1221 projects at their authorized costs of capital.[9]

### B. The Commission Should Adopt an Advice Letter Approval Process To Promote Customer Participation.

The PD's proposed protracted application process[10] would reduce customer participation,

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[6] *See, e.g.*, generally, D.25-12-043, December 18, 2025.

[7] D.25-12-043, p. 5.

[8] *Ibid.*

[9] See PG&E's recommended modifications to the PD's Findings of Fact, Conclusions of Law and Ordering Paragraphs in the Appendix to these opening comments.

[10] Under the Commission's process for formal applications, applications can take upwards of 18 months or longer to process. See California Public Utilities Commission Rules of Practice and Procedure, Article 2, Rule 2.6(d), May 2021, p.20.

delay project completion beyond the statutory timeframe for review, and undermine rate affordability as it would increase administrative expenses on projects that may not ultimately proceed. From PG&E's experience running building electrification programs over the past eight years, including two zonal electrification programs targeting 100 percent consent in small zones (1–10 customers),[11] customer process delays will very likely put project success at risk.

To promote program success, PG&E recommends that the Commission modify the PD to (1) remove the requirement to secure *non-binding* customer consent prior to submitting a regulatory filing; (2) replace the application process with an advice letter process; (3) remove the project caps from project approval filings, and instead verify implemented project counts within the cap at the Tier 1 advice letter stage; and (4) revise the initial project approval filing deadline to April 15, 2027.

### 1. Binding consent is critical to minimize project timelines for successful projects.

First, to reduce customer consent attrition, PG&E strongly recommends that the Commission remove the requirement to secure non-binding customer consent prior to submitting a SB 1221 Pilot. This would minimize long customer wait times between initial project interest and project installation. Non-binding expressions of interest are unreliable, and *binding* consent will ultimately be the critical path for projects to move forward. Under PG&E's proposal, binding consent will be demonstrated through Tier 1 advice letters following project approval and customer outreach.

PG&E's experience running building electrification programs suggests that long timelines between initial consent and project installation lead to rescinded consent and low customer satisfaction. In PG&E's Zonal Equity Electrification Pilots, securing 100 percent customer consent to terminate gas service is challenging. Since the program's launch in May 2025, only two zones and eight services have committed out of 60 prospective zones,

[11] PG&E's Alternative Energy Program and Zonal Equity Electrification Programs pursue zonal projects with 100 percent participating customer consent. The "zonal" projects pursued for these programs are distinct from the Priority Neighborhood Decarbonization Zones defined by the PD.

***representing a less than five percent conversion rate***. The average cycle time between initial outreach and binding consent has exceeded five months.

PG&E estimates that an extended timeline associated with an application could cut already low conversion rates in half. Under the PD's process, customers could experience up to two years of additional delays associated with an application review on top of standard implementation timelines (e.g., securing interest or consent from the rest of the zone, contractor scheduling, service planning and design for distribution system upgrades, and coordination with complementary funding programs), which lowers customer participation further.[12] In contrast, binding consent and PG&E's proposed advice letter process (described in more detail below) may reduce the outreach-to-installation timeline to approximately six months.

**2. The advice letter process would provide transparency and ensure timely project completion for customers.**

Second, PG&E recommends the Commission replace the proposed application process with a streamlined advice letter process (described in Table 1 below) to shorten regulatory approval timelines in the coming years. The PD assumes an application process is necessary for transparency and rigor,[13] when an advice letter process can provide the necessary level of transparency and rigor appropriate for the scope and timeline of SB 1221 pilot programs. The PD's proposed application process could take 18 months between application submission and approval, which, *even without securing non-binding consent prior to filing*, is unworkable within the SB 1221 statutory timeframe, as shown in Table 2 and further discussed below.[14]

Recent program experience underscores this risk of protracted timelines for regulatory

[12] A "lesson learned" from PG&E's decarbonization project efforts with California State University Monterey Bay was that even unanimous consent to electrification can still result in long project implementation timelines due to complex project planning to accommodate scheduling needs of participating customers and project inspection and construction. See *Pacific Gas and Electric Company (U 39 G) Lessons Learned Report Pursuant to Ordering Paragraphs 3 and 4 of Decision No.25-11-004* (January 26, 2026), Attachment 1, pp.1-2.

[13] PD, p.16.

[14] See California Public Utilities Commission Rules of Practice and Procedure, Article 2, Rule 2.6(d), May 2021, p.20,

approvals: customers' circumstances change and customers move away after outreach. Larger projects with more impacted customers will fail if the protracted application timeline increases the proportion of non-consenting customers. Utilities would spend significant ratepayer money on outreach and program administration for a project with no avoided gas system costs, eroding program cost-effectiveness. Multi-year delays introduce additional affordability risks, such as cost escalation, technology risks, obsolescence, or rapid advancement.[15] Eliminating the non-binding consent requirement prior to approval (thereby enabling utilities to minimize the timeframe between project outreach and execution) would reduce these risks and increase the likelihood of cost-effective projects.

### 3. The number of completed projects will increase if the Commission uses the advice letter process for oversight instead of project caps.

Third, PG&E requests the Commission remove the project cap requirement from program and project approval filings to allow utilities greater flexibility in the number of *prospective* projects they can submit via Tier 2 advice letter. Allowing utilities to include more potential projects in a project approval filing will increase the probability of a completed project. The Commission would monitor and enforce utility compliance with the overall program cap when it reviews subsequent Tier 1 advice letters that demonstrate at least 67 percent binding customer consent.

PG&E's proposed advice letter process seeks to balance the following outcomes: minimal time between customer outreach and project installation, Commission project review and decision prior to installation, and a predictable and reasonable regulatory schedule. PG&E's experience is that customers seek that regulatory certainty to undertake electrification projects. To these ends, the proposed advice letter process entails the following regulatory events as follows:

[15] See *Pacific Gas and Electric Company (U 39 G) Lessons Learned Report Pursuant to Ordering Paragraphs 3 and 4 of Decision No.25-11-004* (January 2026), pp.1-2.

**Table 1. PG&E's Recommended Scope of Program and Project Details through Advice Letter Process (Covering the Same Scope Proposed by the PD for Applications)**

| **Tier 3 Advice Letter** (One-Time, General Program-Specific Details, and Applicable to all Projects) | **Tier 2 Advice Letter** (Semi-Annual, Project-Specific Details, Bundled for Multiple Projects) | **Tier 1 Advice Letter** (After Tier 2 AL approval, only for projects with binding consent) |
|---|---|---|
| **NOTE: Utilities should have the option of including the first-round project-specific proposals in their Tier 3 advice letters, including the same details as would be required for a Tier 2 project-specific advice letter** | | |
| • Request authorization of Program Revenue Requirements<br>• Request authorization of cost recovery process, as applicable<br>• Categorization of types of program/project costs as administrative, outreach, or implementation<br>• General cost-effectiveness methodology<br>• General electrification and remediation interventions likely to be offered<br>• General approach to customer co-pays, if applicable<br>• General bill impact methodology<br>• General data sharing procedures<br>• General customer outreach strategy<br>• General workforce standards implementation methods<br>• General approach to CBO and local entity coordination<br>• General coordination approach with other ZEA programs (i.e., energy efficiency, demand response, etc..) | • Request authorization of updates to Revenue Requirement based on project-specific cost estimates<br>• Project-specific electrification and remediation offerings<br>• Project-specific approach for customer co-pays, if applicable<br>• Project-specific cost-effectiveness estimates<br>• Project-specific outreach outcomes to date<br>• Ongoing project-specific outreach and communication plans to commence upon project approval<br>• Project-specific estimated bill impacts<br>• Project-specific coordination outcomes and future coordination plans with CBOs and local entities<br>• Project-specific coordination with other programs for complementary ZEA interventions or non-ratepayer funded incentives | • Documentation of binding consent for at least 67 percent of project participants |

This advice letter process enables the Commission's robust review of key program and project inputs over stages and shortens customer wait times for installation to approximately six months. That enables project execution to begin more than a year before the Commission starts its pilot efficacy review. PG&E's proposed process to file Tier 2 advice letters on a semi-annual basis allows the Commission to review new projects on a predictable schedule within months instead of years, and provides greater transparency on project status in time for the Commission's annual updates to the Legislature under SB 1221. The difference between the PD's proposed application process and PG&E's recommended advice letter approach is

significant, as demonstrated by Table 2.

**Table 2. Comparison of the Customer Journey under PD's Proposed Application Process (2+ years) to PG&E's Proposed Advice Letter Process (6 months)**

| **Program Implementation Milestone** | **PD's Proposed Application Process** | **PG&E's Proposed Advice Letter Process** |
|---|---|---|
| Program framework and initial projects submitted | N/A | April 15, 2027<br>(Tier 3 Advice Letter) |
| Program framework and initial projects approved | N/A | July 2027<br>(Commission Resolution) |
| Customer outreach begins | February 2027 | April 2027 |
| *Non-binding* expression of interest obtained from first customer(s)/property owner(s) | March 2027 | May 2027 |
| 67% *non-binding* expression of interest obtained first customer(s)/property owner(s) | May 2027 | N/A |
| Project-specific filing submitted to CPUC | December 2027<br>(Application) | *See program framework and initial project submission from April 2027* |
| Commission approval of project(s) | December 2028<br>(~12 months) | *See Commission Resolution approving initial projects in July 2027* |
| 67% *binding* consent obtained in pilot location(s) | February 2029<br>(Tier 1 Advice Letter) | August 2027<br>(Tier 1 Advice Letter) |
| ZEA installed in first customer's location(s) | April 2029<br>**2+ years after expression of interest** | November 2027<br>**6 months after expression of interest** |
| Second tranche of projects submitted | July 2028 | December 2027 |
| *SB 1221 Statutory Requirement: The Commission shall begin reviewing the efficacy of the pilot projects* | January 1, 2029<br>*Before first ZEA install* | January 1, 2029<br>*1+ year after first ZEA install* |
| *SB 1221 Statutory Requirement: The Commission shall not establish any more pilot projects subject to the provisions of SB 1221 after this date* | January 1, 2030<br>*8 months after first ZEA install* | January 1, 2030<br>*2+ years after first ZEA install* |

PG&E's proposal will likely increase customer participation, enable project completion within the statutory timeframe for pilot efficacy review, and support rate affordability. Accordingly, PG&E recommends that the Commission modify the PD to adopt PG&E's

streamlined advice letter process for approval of SB 1221 programs.[16]

#### 4. PG&E recommends changing the project approval filing date to April 15, 2027 to develop a well-supported electrification program.

Finally, PG&E requests the Commission revise the initial project approval filing deadline (for optional inclusion within the Tier 3 advice letter) to April 15, 2027 instead of December 15, 2026. PG&E's experience with electrification programs to date suggests that December 2026 will be too soon following an expected Final Decision in July 2026 to develop project proposals to the level required for a project approval filing. Instead, utilities would submit a Tier 3 advice letter by April 15, 2027 outlining a program framework, with the option to include specific project proposals that can inform framework development and for Commission approval with a Tier 3 Resolution.

### C. The Commission Should Provide Guidance on Termination of Gas Service to Customers Who Do Not Consent to Electrification.

The PD concludes that property owners are required to consent to an SB 1221 electrification program as part of SB 1221's "no less than 67 percent consent" requirement, but fails to resolve the inconsistency with the Public Utilities Code and utility tariffs that require an obligation to serve gas to all "customers of record" unless they choose otherwise.[17] This leads to an impossibility where a property owner consents to electrify a home, and the customer of record (e.g., a tenant) does not. In that instance, the PD would allow PG&E to terminate gas service to

[16] See also PG&E's December 3 and 17, 2025, Appendix A comments in this proceeding; see also PG&E's recommended modifications to the PD's Findings of Fact, Conclusions of Law and Ordering Paragraphs in the Appendix to these opening comments.

[17] PD, pp. 48- 49, referencing Public Utilities Code Section 663(b)(4). As a preliminary legal matter, SB 1221's statutory consent requirements which reference only "property owners" as requiring consent conflict with the Public Utilities Code and common law definitions of a utility's obligation to serve, which define the obligation to serve as running from the public utility directly to the *customers* the public utility serves, not the owners of the "*property*" on which the services are provided. Compare, SB 1221's Public Utilities Code Sections 663(b)(4) and (5) with Public Utilities Code Sections 328, 328.1, 328.2, and 453, and PG&E Gas and Electric Rules 11. The PD also fails to note that (1) the plain meaning of SB 1221' "*no less than* 67 percent consent" provision does not affect the Commission's legal authority to impose a consent requirement *higher than* 67 percent under its existing legal authority; it only restricts the Commission from adopting a *lower* percentage requirement for consent, and (2) a lessee's ownership of a leasehold interest is "property."

the utility's customer of record even without their consent. The PD would also authorize a utility to terminate gas service even if the "property owner" cannot be identified by public records.[18] At a minimum, a utility's "customer of record" service accounts do not include information regarding who holds title to the property (including multiple or joint owners), which further challenges a utility's ability to comply with this proposal if the Commission adopts it. PG&E therefore recommends that the Commission revise the PD as PG&E proposes in its Appendix below.

It remains unclear how a utility would comply with a "no less than 67 percent consent" requirement to terminate gas service and with other Public Utilities Code provisions that mandate the utility's obligation to serve all customers unless they voluntarily terminate their service or violate existing tariff terms of service (for instance, PG&E's Gas Rule 11 and Electric Rule 11).[19] The Commission should revise the PD to remain consistent with long-standing Commissioned-approved tariff provisions and the Public Utilities Code that require nondiscriminatory availability of service to all ratepayers.[20]

To that end, PG&E requests the Commission to provide further guidance on how the "no less than 67 percent" consent rule will work under these practical realities. For instance, utilities should be granted express exemptions from liability under the Public Utilities Code and Commission-approved tariffs if consent is only required from "property owners" and not "customers of record" on the utility's accounts.[21] PG&E has proposed revisions for the Commission's consideration that are consistent with customer rights and the utility's statutory

[18] PD, p. 49.

[19] Public Utilities Code Sections 328, 328.1, 328.2, 453; PG&E Gas Rule 11; PG&E Electric Rule 11.

[20] PU Code § 453(a).

[21] Inability to directly contact or communicate with a customer of record is particularly a potential issue in disadvantaged communities or multi-family housing where utility tariffs require multiple channels and forms of communication and contact before service is terminated, even where the customer is able under the utility tariffs to resume service upon full payment of their utility bill or remediation of a safety issue regarding their service. Under SB 1221, termination of customer gas service is permanent even if the customer refuses or does not affirmatively consent to electrification.

and common law obligations to provide non-discriminatory, non-preferential utility service to all customers.[22]

### D. The PD Should Include Administration and Outreach Costs in the Primary Calculation Used to Determine SB 1221 Pilot Project Cost Effectiveness.

The PD requires utilities to conduct four different cost-effectiveness calculations for each SB 1221 project. The primary one is based on a calculation that excludes administration costs, outreach costs, and non-ratepayer funding sources.[23] PG&E recommends the primary determination of cost-effectiveness *include* administration, outreach, and evaluation costs. These costs are necessary to implement projects and reflect the full cost to achieve project benefits.

The PD states that excluding administration and outreach costs for two calculation versions will help inform whether the pilot could be cost-effectively replicated at scale.[24] PG&E disagrees, as these costs would be required at scale. Instead, the administration, outreach, and any evaluation costs should be included in the *primary* calculation to determine pilot cost-effectiveness in service of rate affordability. That would ensure ratepayer benefits (i.e., the avoided ratepayer cost of gas infrastructure) equal or exceed the *total* ratepayer costs (i.e., administration, outreach, evaluation, and implementation of electrification projects) necessary to eliminate gas infrastructure costs.

Additionally, PG&E suggests the Commission establish that the program costs that qualify as "administration" or "outreach" follow Energy Efficiency program cost categorization policy, per the Energy Efficiency Policy Manual Version 6.0 Appendix C.[25] Table 3 below reflects PG&E's recommendations for ease of reference.

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[22] See PG&E's recommended modifications to the PD's Findings of Fact, Conclusions of Law and Ordering Paragraphs in the Appendix to these opening comments.

[23] The PD (p.60) describes four tests with various combinations where project administration and outreach costs are included or excluded, and non-ratepayer funding sources are either included or excluded.

[24] *Id*.

[25] Energy Efficiency Policy Manual, Version 6.0, Appendix C (April 2020). Accessible at https://www.cpuc.ca.gov/-/media/cpuc-website/files/legacyfiles/e/6442465683-eepolicymanualrevised-march-20-2020-b.pdf.

**Table 3. PG&E Recommended Tests for Project Cost-Effectiveness**

| Cost-Effectiveness Calculation | Administration, Outreach, and Evaluation Costs | Non-Ratepayer Funding |
|---|---|---|
| **PG&E proposed test for final project approval** | ✓ **Included** | × Excluded |
| PD proposed test for final project approval | × Excluded | × Excluded |
| Information only, *without* admin and outreach | × Excluded | ✓ **Included** |
| Information only, *with* admin, outreach, and non-ratepayer funding | ✓ **Included** | ✓ **Included** |

One objective of SB 1221 is to evaluate decarbonization approaches. However, the PD would require utilities to assess cost effectiveness of individual pilots rather than across the entire portfolio.[26] Project-level cost-effectiveness reviews would likely result in fewer projects for disadvantaged customers. In contrast, program-level cost-effectiveness reviews allow utilities to balance cost-effectiveness across projects for an overall cost-effective program, like other programs authorized by the Commission. PG&E recommends that the PD be revised to prioritize cost effectiveness at the program level to promote equity and affordability**.**

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[26] PD at p. 60.

## III. CONCLUSION.

PG&E appreciates the opportunity to provide these opening comments on the Proposed Decision based on its lessons learned with electrification programs and customer interaction. PG&E is committed to making such programs successful for all customers. To that end, PG&E respectfully requests that the Commission adopt the specific recommended changes to the PD included in Appendix A.

Respectfully Submitted,

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Dated: June 18, 2026

# APPENDIX A –
# PG&E'S RECOMMENDED CHANGES TO FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDERING PARAGRAPHS PURSUANT TO RULE 14.3(C)

This Appendix includes PG&E's proposed revisions to the PD's Findings of Fact and Conclusions of Law pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure. For the convenience of the Commission and interested parties, PG&E has also proposed revisions to the Ordering Paragraphs of the Proposed Decision. Additions are provided in ***bold italics***. Deletions are in ~~strikethrough~~.

## 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, ***effective*** 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 ***customer of record*** 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 ***authorized to and provide decarbonization services*** ~~serve~~ in 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 ***or owners*** of record, ***including fee simple title owners and owners of leasehold interests in the property.***
7. It is reasonable to define "Zero Emission Alternative" (ZEA), for the purposes of implementing SB 1221, as a technology that ***complies with the definition of "zero emissions alternative" in Public Utilities Code 660(j)***.
8. It is reasonable to require utilities that submit pilot ***program*** proposals to demonstrate that

their proposed ZEA ***programs*** meet~~s~~ 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, utilities to submit proposals for pilot projects.

10. It is reasonable for the Commission to require ***utilities*** ~~applicants~~ to submit pilot ***program framework*** proposals by filing and serving ~~an application~~ ***a Tier 3 advice letter filing by April 15, 2027, with the option for utilities to submit amendments to their program for Commission approval by advice letter filings and the option for utilities to submit semi-annual Tier 2 advice letter filings to propose pilot projects under their programs***.

11. ~~It is reasonable for the Commission to set three stages (rounds) of applications, with the first set of applications due 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~~ ***fourteen*** projects to PG&E ~~in the first round, seven projects to PG&E in the second round, seven~~ ***fourteen*** 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 ***utilities***, at a minimum, to include the following location information in their ***Tier 2 semi-annual project advice letter filings*** ~~applications~~:

    (a) A map of the ***utility's*** ~~applicant's~~ service territory showing the boundaries of all the proposed pilot projects; and

    (b) Individual maps for each proposed pilot project ***location included in the program***.

17. It is reasonable to require ***utilities*** ~~applicants~~, at a minimum, to include the following ***potential project*** location information ***in their Tier 1 advice letters (if applicable), Tier 2 advice letters, or Tier 3 program framework advice letters if including project-specific proposals*** for each project ***in the program***:

(a) List of the census tracts that overlap with the pilot project area. The ~~application~~ ***utility*** 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 ***project*** 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 ***Tier 3 program framework advice letter filings*** ~~applications~~ to include the information in the ***program implementation framework*** ~~application~~ template that the Commission's Energy Division will post on the Commission website ***subject to prior notice and comment by interested parties and Assigned Commissioner ruling consistent with the direction in this decision***.
19. It is reasonable for the Commission to require pilot ***project*** proposals ***in Tier 2 or Tier 3 program framework advice letters if including project-specific proposals*** to include the replacement of pilot participants' natural gas-fueled appliances with new appliances powered by the ZEA ***as defined in SB 1221***.
20. It is reasonable for the Commission to require any replacement appliances (1) to carry an industry-standard warranty and (2) to ***comply with*** ~~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 ***Tier 2 advice letters with*** pilot ***project*** proposals ***(or Tier 3 program framework advice letters if including project-specific proposals)*** to include the ***preliminary estimates and descriptions*** of property remediation services necessary for the ***utility*** ~~applicant~~ to install and the participant to safely and conveniently use their electric appliances.
22. It is reasonable for the Commission to require ***Tier 2 advice letters*** pilot ***project*** proposals ***or Tier 3 program framework advice letters if including project-specific 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 ***Tier 3 advice letter program framework proposals*** ~~first-round applications~~ to include a discussion of how ~~their~~ ***projects proposed through Tier 2 project specific advice letters (or the Tier 3 advice letters, if applicable) will*** ~~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 ***Tier 2 advice letters (or Tier 3 program framework advice letters if including project-specific proposals)*** ~~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 ***Tier 2 advice letter project proposals*** ~~application~~ ***(or Tier 3 program framework advice letters if including project-specific proposals)*** 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 ***categories of*** 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 ***Tier 2 advice letter*** pilot ***project*** proposals ***(or Tier 3 program framework advice letters if including project-specific proposals)*** to include:

- Location and length of existing gas mains the ***utility*** ~~applicant~~ proposes to decommission ***based on potential customer participation***
- ***Project estimates of*** pipe materials and diameters
- Locations and ***preliminary*** cost estimates costs associated with the gas infrastructure the pilot ***project*** proposes to remove ***based on potential customer participation*** (i.e., cost of decommissioning and the cost of investment and maintenance that would be necessary but for the decommissioning)
- A map ***of the project area*** showing non-confidential energy infrastructure
- A description of the ***preliminary*** feasibility ***and safety*** analyses ***based on potential***

***customer participation*** the ***utility*** ~~applicant~~ deemed necessary and the results of those analyses

26. It is reasonable for the Commission to require ***Tier 2*** pilot ***project*** **advice letter** proposals ***(or Tier 3 program framework advice letters if including project-specific proposals)*** to include:
    - ***Project d***escriptions of the electric infrastructure upgrades that the electric utility plans or expects ***may*** ~~will~~ be necessary to provide service to the pilot project areas if the projects were not expected to occur.
    - ***Project d***escriptions and cost estimates of the incremental ***project area*** 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 ***will evaluate and take*** ~~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 ***program and individual pilot projects*** (whether the data is related to electric ***or gas*** 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***, security*** and existing Commission rules.
28. It is reasonable to require ***Tier 2 advice letters (or Tier 3 program framework advice letters if including project-specific proposals)*** ~~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 ***Tier 3 program framework advice letters*** ~~applications~~ to describe how the ***utility will take*** ~~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 ***utilities*** ~~applicants~~ to engage with coordinating entities to ensure the coordinating entities are aware of the proposed pilot project and can contribute as appropriate.
32. It is reasonable for the Commission to require ***utilities*** ~~applications~~ to document their efforts ***and/or plans*** to engage with coordinating entities in sufficient detail ***in Tier 2 advice letters (or Tier 3 program framework advice letters if including project-specific proposals)*** for the Commission to assess whether the outreach was ***or will be reasonably*** conducted in good faith, timely, complete, and coordinated with coordinating entities.
33. It is reasonable for the Commission to require ***Tier 2 advice letters (or Tier 3 program framework advice letters if including project-specific proposals)*** ~~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 utilities applicants to reasonably ensure that coordinating entities, the community, and other relevant stakeholders are kept up to date and can provide input into the pilot ***project*** 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 ***a utility*** ~~an applicant~~, after the Commission approves a ***Tier 2 and Tier 3 advice letter*** pilot ***project***, to obtain binding consent agreements from the owners ***and customers of record*** of at least 67 percent of the affected properties ***and customers of record for each individual pilot project*** before making capital investments toward the pilot project.

37. It is reasonable for the Commission to require the ***utility*** ~~applicant~~, once it has obtained consent from the owners ***and customers of record*** of at least 67 percent of the affected properties ***and customers of record*** 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 ***and customers of record***.

38. It is reasonable for the Commission to require ***utilities*** ~~applicants~~ to follow the outreach, notification, and documentation requirements listed in Appendix A ***unless they demonstrate in their program and/or project advice filings that such requirements are overly burdensome or inefficient***.

39. It is reasonable for the Commission, in cases where a property owner ***and no less than 67 percent of the customers of record*** consents to the pilot project to require the ***utility*** ~~applicant~~ to coordinate with the property owner ***and consenting customers*** 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 ***who is not a property owner*** does not.

40. It is reasonable for the Commission to require ***utilities*** ~~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 ***of record***.

41. It is reasonable for the Commission to ~~authorize~~ ***approve reasonable requests by utilities*** ~~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 utilities that plan to file ***a Tier 3 program framework advice filing*** ~~an application~~ to implement ***a*** pilot projects ***program*** to establish a memorandum account to record ***and recover the reasonable and verifiable incremental*** administrative and outreach costs they incur in the course of developing ***their Tier 3 program framework advice filing*** ~~application~~ ***as well as costs under prior SB 1221 memorandum accounts filed and/or approved by the Commission in this proceeding.***

43. It is reasonable for the Commission to direct ***utilities*** ~~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 ***utility's*** ~~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 ***utilities*** ~~applicants~~ to include the net present value of the following costs in their cost effectiveness calculations: ***the cost of administration and outreach, including evaluation or measurement;*** 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; ***code-required upgrades***); 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 ***utilities*** ~~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 ***utilities*** ~~applicants~~ to include the ***estimated*** 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 ***utilities*** ~~applicants~~ to calculate avoided gas infrastructure costs using a template developed by Energy Division staff ***that incorporates comments from parties to this proceeding*** ~~that~~ ***before it*** 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 ***utilities*** ~~applicants~~ to limit their administrative and outreach costs to no more than ten percent of each pilot ***project'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 ***proposed or potential individual*** project, ***in response to updated cost recovery requests submitted via Tier 2 advice letter,*** even if the ***utility*** ~~applicant~~ did not ~~include that project~~ ***fully estimate those costs*** in their ***Tier 3 program framework advice letter*** ~~final application~~, so long as those costs were prudently incurred.

51. It is reasonable for the Commission to authorize ***utilities*** ~~applicants~~ to, in their ***Tier 3 program framework advice filings*** ~~applications~~, request authority to establish balancing accounts to record ***and recover*** the ***program*** costs ***reasonably*** incurred for behind-the-meter work during pilot ***program*** implementation***, subject to annual Tier 2 advice filing approval of updates or changes in forecast revenue requirements to recover reasonable program***

***costs***.

52. It is reasonable for the Commission to require ***utilities*** ~~applicants~~ requesting to establish a balancing account to propose and justify a cap on pilot ***program*** expenditures based on the forecasted costs of the ZEA implementation (including financing costs based on ***the utility's authorized cost of capital and balanced capital structure*** ~~the appropriate cost of debt~~) and to propose an amortization period over which the ***utility*** applicant will recover the costs. ***The cap on program expenditures may be revised by a Tier 2 advice filing to include revised reasonable forecasts of program costs and revenue requirements, subject to refund of any overcollections at the end of the pilot program.***

53. ***To be consistent with and comply with the Commission's cost of capital and balanced capital structure decisions and requirements,*** it is reasonable for the Commission to authorize **utilities** ~~applicants~~ to propose to amortize behind-the-meter costs ***in rates*** over a period of no more than ten years ***at the utility's authorized cost of capital and capital structure.***

**O R D E R**

**IT IS ORDERED** that:

1. Any gas distribution utility regulated by the Commission may submit neighborhood decarbonization pilot ~~project~~ ***program framework*** proposals by filing ***a Tier 3 program framework advice filing by April 15, 2027*** ~~an application~~.

    (a) ~~Applicants~~ ***Utilities*** shall include in their ***Tier 3 program framework advice filings*** ~~application~~ the ***program-specific*** information and proposals required by this decision and by the ***advice filing*** ~~application~~ template ***consistent with this decision*** that the Commission's Energy Division will post on the Commission's website, ***and, at the opton of the utility, any project-specific details for the proposed projects.***

    (b) ***Project specific proposals may be submitted via Tier 2 advice letter semi-***

***annually thereafter.***

2. Utilities that plan to file ~~an application~~ ***a Tier 3 program framework advice filing*** to implement ***a*** pilot ~~projects~~ ***program*** 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 ***advice filings.*** ~~application~~.
3. Rulemaking 24-09-012 remains open. This order is effective ***July 1, 2026*** ~~today~~.