

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.

**Rulemaking 24-09-012
(Filed September 26, 2024)**

INDICATED SHIPPERS OPENING COMMENTS ON PROPOSED DECISION

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Regarding the Proposed Decision's requirement that applicants submit proposed SB 1221 pilots through the formal application process, the Commission should:

- Clarify that formal applications are required not only for initial pilot approval, but also for any later request that would materially modify an approved pilot. Material changes affecting project scope, cost allocation, cost recovery, cost-effectiveness, or customer obligations should be resolved through a formal application proceeding unless the Commission expressly orders otherwise. Material changes are those that constitute a deviation of ten percent or greater from approved pilot parameters.
- Clarify that Tier 1 advice letters remain limited to narrow administrative and compliance functions. The final decision should state expressly that advice letters may not be used to materially alter approved pilot terms or to expand cost-recovery authority.
- **Proposed Findings of Fact**
 - **New FOF:** SB 1221 pilot proposals raise project-specific issues concerning cost-effectiveness, infrastructure impacts, customer consent, customer notice, and proposed cost recovery.
 - **New FOF:** Those project-specific issues warrant full party participation and Commission review on a developed record.
 - **New FOF:** Material changes constituting deviations of ten percent or greater from approved pilot scope, cost allocation, cost recovery, cost-effectiveness, or customer obligations present issues of comparable significance and complexity to initial pilot approval.
 - **New FOF:** Advice letters are not an adequate procedural vehicle to resolve material disputes concerning pilot approval, cost allocation, or proposed ratepayer recovery of BTM implementation costs.
- **Proposed Conclusions of Law**
 - **New COL:** Formal applications are the appropriate procedural vehicle for approval of SB 1221 pilot proposals.
 - **New COL:** Material modifications of ten percent or greater to an approved pilot project scope, cost allocation, cost recovery, cost-effectiveness, or customer obligations must be presented through an application proceeding, unless the Commission expressly orders otherwise.

- **New COL:** Advice letters may be used only for ministerial or compliance matters that do not alter approved pilot scope, cost allocation, cost recovery, cost-effectiveness, or customer obligations.

Regarding the Proposed Decision's adoption of a cost-effectiveness framework and ratemaking methodology for behind-the-meter implementation costs, the Commission should:

- Clarify that the Section 663(b)(2) cost-effectiveness determination establishes pilot eligibility only, not cost allocation. The final decision should state expressly that satisfaction of the project-specific cost-effectiveness screen does not determine whether customer-specific BTM implementation costs may lawfully be recovered from non-participating ratepayers.
- Clarify that the PD's BTM accounting rulings are permissive only. The decision allows applicants seeking BTM recovery to propose expensing or amortization of up to ten years, but those accounting options do not by themselves authorize broader recovery from non-participating ratepayers.
- Clarify that participant-funded, beneficiary-pays, and other non-ratepayer-funded approaches remain available for Commission consideration and should be encouraged where feasible.

Clarify that if an applicant seeks broader recovery of customer-specific BTM implementation costs from non-participating gas ratepayers, that request must be presented and justified in the formal application. Any such request should explain why narrower, beneficiary-aligned alternatives are not feasible and should be evaluated on a developed record under the applicable just-and-reasonable and cost-causation standards.

- **Proposed Findings of Fact**

- **New FOF:** Pilot applications may present alternative recovery approaches, including participant-funded, beneficiary-pays, or non-ratepayer-funded proposals.

- **Proposed Conclusions of Law**

- **New COL:** A determination that a proposed pilot satisfies the cost-effectiveness criteria adopted pursuant to Public Utilities Code section 663(b)(2) does not, by itself, authorize recovery of BTM electrification costs from non-participating gas ratepayers.
- **New COL** The Commission's decision to permit applicants to propose expense treatment, amortization, balancing-account treatment, or financing-cost recovery for BTM implementation costs does not by itself authorize recovery of

those costs from non-participating gas ratepayers or otherwise predetermine lawful cost allocation for those costs.

- **New COL:** Any future application seeking recovery of BTM implementation costs from non-participating gas customers must separately demonstrate that such recovery is lawful, just and reasonable, and consistent with cost-causation principles.

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INDICATED SHIPPERS OPENING COMMENTS ON PROPOSED DECISION

The Indicated Shippers¹ submit these opening comments to the May 29, 2026 [Proposed] *Decision Establishing Application Process For SB 1221 Neighborhood Decarbonization Pilot Program* (Proposed Decision or PD) pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission).

I. INTRODUCTION

The Proposed Decision correctly adopts several important guardrails and limitations on the SB 1221 pilot program. It requires formal applications for pilot approval,² evaluates cost effectiveness on a project-specific rather than portfolio-wide basis,³ and declines to authorize recovery of behind-the-meter (BTM) costs as capital costs afforded the utility's authorized rate of return.⁴ Those determinations are fully consistent with SB 1221, supported by the record, and appropriately reflect the novelty, complexity, and ratepayer significance of the pilots. Accordingly, these aspects of the PD should be retained.

¹ The Indicated Shippers represent the natural gas non-core customer interests of the following companies in this proceeding: California Resources Corp., Chevron U.S.A. Inc., Marathon Petroleum Company LP, PBF Holding Company, and Phillips 66 Company.

² PD at 14-16.

³ PD at 58-60.

⁴ PD at 64-67.

The PD should, however, be modified to clarify two important aspects. First, the PD should make clear that the gas utility application requirement governs not only initial requests for pilot approval, but also any later request that would materially modify an approved pilot. Second, the PD should clarify that it does not decide whether customer-specific BTM implementation costs may lawfully be recovered from non-participating ratepayers, and that no contrary implication should be drawn from the cost-effectiveness or ratemaking aspects adopted here. Specifically, the PD should be modified to state expressly that neither the procedural framework adopted here nor a finding that an individual pilot satisfies the cost-effectiveness screen prejudices whether BTM implementation costs may be recovered from non-participating ratepayers.

II. COMMENTS

A. The Proposed Decision Correctly Requires Formal Applications For Pilot Approval

The PD properly concludes that SB 1221 pilot proposals must be presented through formal applications rather than through an advice letter process.⁵ The PD explains that these are novel projects, and that the application process will allow both the Commission and stakeholders to closely review proposals, thereby increasing the transparency and rigor of evaluation.⁶ That determination is correct and should be retained. As Indicated Shippers previously explained, these pilots raise project-specific issues concerning cost-effectiveness, infrastructure impacts, customer consent, customer notice, and proposed cost recovery. Those issues require full

⁵ PD at 14-16.

⁶ PD at 16, Conclusion of Law (CoL) 10.

stakeholder engagement and Commission review on a developed record, not the abbreviated scrutiny associated with advice letters.⁷

The PD should go one step further and make clear that the application requirement governs not only initial pilot approval, but also any later request that would materially modify an approved pilot. Any subsequent request that would materially alter an approved pilot, including changes to project scope, cost allocation, cost recovery, cost-effectiveness, or customer obligations, must be presented through a formal application proceeding unless the Commission expressly orders otherwise. An appropriate touchstone for determining materiality of any alteration to the scope of an approved pilot is the ten percent limit on pilot utility administrative and outreach costs set forth in the PD.⁸

Nothing in the PD should be read to permit material pilot changes, or requests to impose BTM implementation costs on non-participating customers, through the abbreviated advice letter process. The PD currently limits Tier 1 advice letters to memorandum-account establishment for limited development costs, post-approval consent documentation, and post-implementation annual outreach documentation.⁹ That boundary should be preserved, and the PD should affirmatively state that advice letters shall not be used to materially alter approved pilot terms or to expand cost-recovery authority.

⁷ *Reply Comments Of Indicated Shippers To The Commission's Second Amended Assigned Commissioner's Scoping Memo And Ruling Requesting Comments On Pilot Program*, R.24-09-012, Dec. 17, 2025 (Indicated Shippers Reply Comments on Seconded Amended Scoping Memo) at 1-6.

⁸ PD at 62; CoL 49.

⁹ PD at 47-48, 55-56, CoL 37, Ordering Paragraph (OP) 2.

The PD should therefore be modified to state expressly that any material modification to an approved pilot must be presented and resolved through a formal application proceeding. Advice letters should remain limited to ministerial, compliance, or other non-controversial matters that do not alter approved pilot scope, cost allocation, cost recovery, cost-effectiveness, or customer obligations. That clarification would be fully consistent with the PD's stated rationale for requiring applications for pilot proposals.

B. The Proposed Decision Should Clarify That Neither The Cost-Effectiveness Determination Nor The Permissible Accounting Treatment Of BTM Costs Resolves Whether Those Costs May Be Recovered From Non-Participating Ratepayers

The PD properly adopts a project-specific cost-effectiveness framework under Section 663(b)(2), and correctly declines to authorize traditional rate-base treatment of BTM costs with an equity return.¹⁰ The PD states that cost-effectiveness must be calculated “for purposes of project eligibility,” and it separately states that utilities may not recover BTM costs as capital costs afforded a rate of return.¹¹ These aspects of the PD are supported by the record, consistent with statutory requirements, and should be retained. However, the PD should clarify that those determinations do not resolve the distinct question of whether BTM electrification costs may be recovered from non-participating ratepayers.

Specifically, the PD should be modified to clearly state that cost-effectiveness determinations establish pilot eligibility, not cost allocation. Section 663(b)(2) requires only that the Commission establish criteria and methodology for determining whether the cost of

¹⁰ PD at 58-60, and 65-67.

¹¹ PD at 66.

implementing the zero-emission alternative is less than the cost that otherwise would have occurred.¹² As the PD recognizes, that inquiry goes to whether a proposed pilot qualifies for approval.¹³ It does not determine whether customer-specific BTM implementation costs may be lawfully recovered from non-participating ratepayers. The Indicated Shippers' comments made that distinction directly, explaining that Section 663(b)(2) operates as a constraint on pilot selection and design, not as authorization to socialize customer-side electrification costs to non-participating ratepayers.¹⁴

Clarification is similarly warranted with respect to the PD's ratemaking treatment of BTM costs. The PD correctly declines to authorize recovery of BTM costs as capital costs afforded the utility's authorized rate of return. Instead, it permits applicants to seek authority to record BTM costs as expenses and "propose to expense the costs or recover the costs over an amortization period proposed by the applicant," of up to ten years.¹⁵ Critically, however, the PD does not *require* applicants to pursue expense treatment or amortization in every case.¹⁶ Rather, it permits applicants to request authority to establish balancing accounts to record implementation costs,

¹² PD at 58.

¹³ Id. ("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.") (emphasis added).

¹⁴ *Indicated Shippers Comments On Administrative Law Judge's Ruling Requesting Additional Information To Implement Senate Bill 1221*, R.24-09-012, Mar. 27, 2026 (Indicated Shippers Opening Comments on SB 1221 Ruling) at 8 ("This cost-effectiveness provision operates as a constraint on pilot selection and design; it does not authorize shifting customer-side electrification costs onto non-participating gas ratepayers. To the extent an SB 1221 pilot project produces verifiable net gas system savings, those savings should accrue to gas ratepayers through lower future capital requirements, not through advance recovery of customer-side costs that may or may not yield the claimed benefits."); Indicated Shippers Reply Comments on Second Amended Scoping Memo at 5-7.

¹⁵ PD at 65-67, CoL 51-54.

¹⁶ PD at 66-67 ("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.")

subject to a cap, and propose to expense the costs or recover the costs over an amortization period.¹⁷ The significance of that framework should be clarified; the accounting treatment an applicant may propose for BTM costs does not itself determine whether broader recovery from non-participating ratepayers is lawful.

The PD should therefore be modified to clarify that participant-funded, beneficiary-pays, and other non-ratepayer-funded approaches remain available for Commission consideration and should be encouraged wherever feasible. That clarification would be consistent with SB 1221's direction that gas corporations use non-ratepayer funding when available and with the legislative objective of affordability.¹⁸ It is also supported by the Indicated Shippers' comments, which identified beneficiary-aligned alternatives and explained that BTM costs should not be treated as recoverable from non-participating customers merely because a utility may propose an accounting mechanism for them.¹⁹

Finally, the PD should make clear that if an applicant elects not to pursue this preferred alternative, and instead seeks broader recovery of customer-specific BTM implementation costs from non-participating ratepayers, that request must be sufficiently justified in the application proceeding. Any such request should explain why narrower, beneficiary-aligned alternatives are

¹⁷ PD at 58, 66-67; CoL 51 and 52.

¹⁸ *Opening Comments Of Indicated Shippers To The Commission's Second Amended Assigned Commissioner's Scoping Memo And Ruling Requesting Comments On Pilot Program*, R.24-09-012, Dec. 3, 2025 (Indicated Shippers Opening Comments on Second Amended Scoping Memo) at 16-18; Indicated Shippers Reply Comments on Second Amended Scoping Memo at 7-9, 25-28.

¹⁹ Indicated Shippers Opening Comments on SB 1221 Ruling at 8-11.

not feasible and should demonstrate, on a developed record, that the proposed recovery is lawful, just and reasonable, and consistent with cost-causation principles.

The PD should state expressly that: (1) satisfaction of the project-specific cost-effectiveness criterion does not determine whether customer-specific BTM implementation costs may be recovered from non-participating ratepayers; (2) the availability of expense treatment, amortization, balancing-account treatment, or financing-cost recovery for BTM costs does not require use of those mechanisms in every case and does not by itself authorize broader ratepayer recovery; (3) beneficiary-paid, participant-funded, and other non-ratepayer-funded approaches remain available and should be encouraged wherever feasible; and (4) any applicant seeking broader recovery of BTM implementation costs from non-participating ratepayers must justify that request in its formal application under the applicable just-and-reasonable and cost-causation standards.

III. CONCLUSION

The Indicated Shippers appreciate the opportunity to provide these comments and urge the Commission to maintain the Proposed Decision's important guardrails and limitations on SB 1221 plot program implementation, with the foregoing recommended clarifications.

Respectfully submitted,

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By:



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June 18, 2026

Appendix with Proposed Changes to Findings of Fact and Conclusions of Law

Proposed Findings of Fact

New FOF: SB 1221 pilot proposals raise project-specific issues concerning cost-effectiveness, infrastructure impacts, customer consent, customer notice, and proposed cost recovery.

New FOF: Those project-specific issues warrant full party participation and Commission review on a developed record.

New FOF: Material changes constituting deviations of ten percent or greater from approved pilot scope, cost allocation, cost recovery, cost-effectiveness, or customer obligations present issues of comparable significance and complexity to initial pilot approval.

New FOF: Advice letters are not an adequate procedural vehicle to resolve material disputes concerning pilot approval, cost allocation, or proposed ratepayer recovery of BTM implementation costs.

New FOF: Pilot applications may present alternative recovery approaches, including participant-funded, beneficiary-pays, or non-ratepayer-funded proposals.

Proposed Conclusions of Law

New COL: Formal applications are the appropriate procedural vehicle for approval of SB 1221 pilot proposals.

New COL: Material modifications of ten percent or greater to an approved pilot project scope, cost allocation, cost recovery, cost-effectiveness, or customer obligations must be presented through an application proceeding, unless the Commission expressly orders otherwise.

New COL: Advice letters may be used only for ministerial or compliance matters that do not alter approved pilot scope, cost allocation, cost recovery, cost-effectiveness, or customer obligations.

New COL: A determination that a proposed pilot satisfies the cost-effectiveness criteria adopted pursuant to Public Utilities Code section 663(b)(2) does not, by itself, authorize recovery of BTM electrification costs from non-participating gas ratepayers.

New COL: The Commission's decision to permit applicants to propose expense treatment, amortization, balancing-account treatment, or financing-cost recovery for BTM implementation costs does not by itself authorize recovery of those costs from non-participating gas ratepayers or otherwise predetermine lawful cost allocation for those costs.

New COL: Any future application seeking recovery of BTM implementation costs from non-participating gas customers must separately demonstrate that such recovery is lawful, just and reasonable, and consistent with cost-causation principles.