BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

FILED
06/18/26
03:24 PM
R2409012

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 (Issued October 4, 2024)

SIERRA CLUB AND NATURAL RESOURCES DEFENSE COUNCIL OPENING COMMENTS ON PROPOSED DECISION ESTABLISHING APPLICATION PROCESS FOR SB 1221 NEIGHBORHOOD DECARBONIZATION PILOT PRORAM

Kiki Velez
Natural Resources Defense Council
111 Sutter Street, 21st Floor
San Francisco, CA 94104
Tel: (415) 875-6100
Email: kvelez@nrdc.org

Representing Natural Resources Defense Council

Matthew Vespa
Rebecca Barker
Earthjustice
180 Steuart St. #194330
San Francisco, CA 94105
Tel: (415) 217-2123
Email: mvespa@earthjustice.org
Email: rbarker@earthjustice.org

Attorneys for Sierra Club

TABLE OF CONTENTS

SUMMARY OF RECOMMENDATIONS

Sierra Club and Natural Resources Defense Council recommend that the Proposed Decision be revised in the following ways:

- Direct utilities to submit pilot projects through a 2-Step Advice Letter process rather than a formal Application proceeding.
    - To both minimize the time between customer engagement and pilot execution and include community-based organization ("CBOs"), electric utilities, local governments, and other stakeholders in the development of community outreach and communications, require a Tier 3 Advice Letter that would approve outreach strategies, communication materials, and provide preliminary approval of a suite of potential pilot projects ***without*** specific customer consent requirements. Following Advice Letter approval, specific projects could then proceed with a demonstration of customer consent through a Tier 2 or Tier 1 Advice Letter.

- Align the PD with SB 1221's equity objectives by:
    - Allowing for an equity-based pilot project shareholder incentive that rewards performance of pilots in DACs or low-income households;
    - Allowing non-cost-effective equity projects as part of a cost-effective portfolio;
    - Defining "remediation" to include health and safety remediation measures, consistent with the Equitable Building Decarbonization guidelines; and
    - Setting a target that at least 40% of pilot projects serve disadvantaged or low-income communities.

- Clarify that a gas utility is entitled to recover costs under any of the options defined by the PD, rather than having to propose how to recover costs and potentially creating a future contested issue.

- Align the PD's discussion of the definition of a "zero-emission alternative" with Conclusion of Law 7 by clarifying that zero-emission alternatives must have zero direct emissions.

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 (Issued October 4, 2024)

SIERRA CLUB AND NATURAL RESOURCES DEFENSE COUNCIL OPENING COMMENTS ON PROPOSED DECISION ESTABLISHING APPLICATION PROCESS FOR SB 1221 NEIGHBORHOOD DECARBONIZATION PILOT PRORAM

Pursuant to Rule 14.3 of the Commission Rules of Practice and Procedure, Sierra Club and Natural Resources Defense Council ("NRDC") timely file these Opening Comments on the Proposed Decision Establishing Application Process for SB 1221 Neighborhood Decarbonization Pilot Program ("PD") filed on May 29, 2026.[1]

I. INTRODUCTION

Sierra Club and NRDC appreciate the opportunity to comment on the Commission's proposed design of the SB 1221 Neighborhood Decarbonization Pilot Program. As co-sponsors of the enabling legislation, our organizations have engaged extensively in this regulatory process to support the establishment of a program that successfully delivers cost savings to all gas customers while providing clean, electric appliances to the communities that will benefit from them the most. A successful SB 1221 program will offer the blueprint for scaling equitable, neighborhood-scale electrification while also addressing the urgent need to avoid costly, long-lived gas investments that are incompatible with state climate goals.

Unfortunately, the PD sets up SB 1221 for failure. First and foremost, the requirement to bring forward projects via a formal Application instead of an Advice Letter process severely undermines pilot viability by creating an extended and unpredictable period of time between initial customer engagement and project execution. Under the PD's approach, significant time and resources must first be directed to customer education and outreach in order to obtain non-

[1] *Proposed Decision Establishing Application process for SB 1221 Neighborhood Decarbonization Pilot Program* (May 29, 2026) ("PD"), https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M607/K364/607364712.PDF.

binding expressions of interest from at least 67 percent of affected property owners, at which point the gas utility can then file a formal Application for project approval that will likely take well over a year to resolve. This prolonged process undermines the iterative learnings envisioned under SB 1221, erodes community trust due to long wait times between the promise of pilot project benefits and their delivery, and increases the likelihood of the same failed outcome of the CSU Monterey Bay Application, in which PG&E moved forward with the gas pipeline replacement after a years-long application review process and the risk of rehearing. Moreover, because the PD resolves or can be further clarified to resolve, key implementation questions, going through a formal Application process for pilot project approval is wholly unnecessary. To salvage SB 1221 implementation, the PD should be revised to replace the proposed formal Application requirement with an Advice Letter approval process, as was broadly recommended by parties to this proceeding.

The PD further impedes successful deployment of pilot projects by giving gas corporations undue control over the development of customer outreach strategies, bill impact analyses, and access to customer information. The PD should be revised to enable more direct input from electric utilities, community-based organizations ("CBOs"), and local governments prior to customer engagement. This can be accomplished through a Tier 3 Advice Letter that would approve outreach strategies, communication materials, and provide preliminary approval of a suite of potential pilot projects without specific customer consent requirements. Projects could then proceed with a demonstration of customer consent through a Tier 2 or Tier 1 Advice Letter. Unlike the Application process proposed in the PD, this will allow for more robust stakeholder input on pilot project outreach while simultaneously minimizing the time between deep customer engagement and pilot project execution.

In addition, while SB 1221 intended for disadvantaged and low-income communities to be prioritized in pilot project deployment,[2] the PD creates structural incentives for pilot project deployment in wealthier communities. Electric upgrade and remediation needs can increase costs of electrification in low-income housing. By proposing a shareholder incentive based solely on cost savings and requiring cost-effectiveness at the project rather than portfolio level, the PD deters projects that may be more costly to execute but have substantial equity benefits. The PD can align with SB 1221's equity objectives by allowing for an equity-based pilot project

[2] SB 1221, Sec. 1(a)(8).

incentive and non-cost-effective equity projects as part of a cost-effective portfolio, defining "remediation" to include health and safety upgrades necessary to install electric appliances, and setting a requirement that 40 percent of pilot projects serve disadvantaged or low-income communities.

Finally, the PD should provide additional clarity on project parameters to avoid future disputes and enable swift approval through an Advice Letter by: 1) clarifying that a gas utility is entitled to recover costs under the options defined by the PD rather than having to propose how to recover costs within those options and potentially creating a future contested issue; and 2) aligning the PD's discussion of the definition of "zero-emission alternatives" with Conclusion of Law 7, which excludes technologies with direct greenhouse gas or air pollutant emissions.

II. DISCUSSION

A. The PD Commits Factual and Legal Error in Requiring an Application Process for Pilot Project Approval.

Despite significant opposition from parties, the PD requires gas utilities to bring forward SB 1221 pilots through a prolonged, intensive Application process that will severely hamstring project viability, success, and community support. To enable a successful SB 1221 program and comport with project reporting requirements in SB 1221, the Commission should revise the PD to allow utilities to propose projects through an Advice Letter process that significantly shortens the time between customer engagement and project execution.

1. The PD Commits Factual Error in Asserting Party Opinions are "Mixed" on the Need for a Formal Application Process When the Only Party to Unequivocally Support Applications is an Association Comprised of Fossil Fuel Companies.

On the critical issue of Applications versus advice letters for pilot project approval, the PD wrongly characterizes party views as "mixed" when the overwhelming majority of parties opining on this issue favor project approval through an Advice Letter. In fact, only Indicated Shippers, an association of companies with a business interest in perpetuating California's reliance on fossil fuels, unequivocally supports the Application-based submission process

adopted by the PD.[3] In contrast, NRDC, Sierra Club, Southern California Gas Company and San Diego Gas & Electric Company ("Sempra Utilities"), Pacific Gas and Electric Company ("PG&E"), Southwest Gas Corporation, the Joint Community Choice Aggregators ("CCAs"), and Cal Advocates, whom collectively represent environmental groups, ratepayer advocates, gas utilities and electric service providers, all support an Advice Letter process with remaining parties neutral on this issue.[4]

While the PD cites to support by Southern California Edison Company ("SCE") for applications for projects above a $7 million cost-threshold, it fails to meaningfully address the significant concerns raised by SCE and other parties that an application requirement would preclude timely and adaptive learning on pilot projects as envisioned by SB 1221.[5] As SCE properly observed in responding to the ALJ Ruling Requesting Comments on SB 1221 Pilots, "application processes can take multiple years, which will make it difficult, if not impossible, to have multiple rounds of pilots that expand upon the learnings from prior pilots."[6] As SCE further noted, an application requirement would also "make it challenging for the Commission to effectively meet the SB 1221 directives that require the Commission (1) on or before March 1, 2026 and each year thereafter, to submit a progress report on the pilot project findings to the relevant policy committees of the Legislature, including information on locations and number of customers, and (2) on January 1, 2029 to review the efficacy of the pilot projects."[7] In failing to accurately depict the extremely limited support for an application process and glossing over the conflict between an extended Application process and SB 1221's iterative reporting and review requirements, the PD commits factual error.

2. The PD Commits Legal Error in Requiring a Lengthy Application Process that Will Preclude Meaningful Compliance with SB 1221's

[3] PD at 14–15. *See,* I.19-06-016, Sur-Reply Testimony of Brian Collins on Behalf of Indicated Shippers at 2 (June 30, 2020), https://www.socalgas.com/sites/default/files/51%20I1906016%20Sur-Reply%20Testimony%20of%20Brian%20C.%20Collins%20on%20Behalf%20of%20Indicated%20....pdf (stating that Indicated Shippers "members own and operate industrial and cogeneration end-use facilities, produce and deliver California natural gas, and/or operate as contracted marketers on the SoCalGas system" and include "California Resources Corp.; Chevron U.S.A., Inc.; PBF Holding Company; Phillips 66 Company; and Tesoro Refining & Marketing Company LLC.").
[4] PD at 14–15.
[5] PD at 15.
[6] SCE's Responses to Questions in Appendix A of the Assigned Commissioner's Second Amended Scoping Memo and Ruling Requesting Comments on Pilot Program at 2 (Dec. 3, 2025), https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M589/K800/589800470.PDF.
[7] *Id.* https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M589/K800/589800470.PDF

Iterative Reporting Requirements by Significantly Delaying Project Execution and Learnings.

The PD commits legal error by opting for a formal Application process that will preclude the iterative learning and reporting process envisioned under SB 1221. Under the PD's approval process, utilities would submit first-round Applications by December 15, 2026, a second by December 15, 2027, and a third, if necessary, by July 1, 2028.[8] The process for a formal application is lengthy. Before a final Commission decision, there is the opportunity to protest, a prehearing conference, a scoping memo, party direct and rebuttal testimony, the potential for evidentiary hearings, briefing, and a proposed decision for party comment. Reaching final resolution on a utility application routinely takes well over a year, if not several years to resolve, and can extend even longer where a party seeks rehearing. Indeed, from Sierra Club and NRDC's review of recent utility applications related to electrification or projects using alternative fuels, not a single one was resolved in under a year.

Application	Filing Date	Final Decision Issued	Time Elapsed
A.25-07-001: SoCalGas Approval of LEAs	July 1, 2025	Awaiting Proposed Decision	11 months and counting
A.24-12-011: SoCalGas Los Angeles Link Phase 2	Dec. 20, 2024	May 7, 2026	1 year, 4 ½ months
A.23-06-024: SoCalGas SB 1440 Pilot Project Application	June 30, 2023	Dec. 24, 2024	1 yr, 6 months
A.19-02-015: SoCalGas/SDG&E Voluntary RNG Tariff	Feb. 28, 2019	Dec. 22, 2020	1 year, 10 months
A.23-06-023: PG&E Woody Biomass Pilot	June 30, 2023	May 21, 2025	1 year, 11 months
A.22-08-003: PG&E CSU Monterey Bay Zonal Electrification	Aug. 10, 2022	PG&E filed motion to withdraw Jan. 7, 2025	2 years, 5 months and then withdrawal of project
A.22-09-006: Hydrogen Blending Demonstration Projects	Sept. 8, 2022	Awaiting Proposed Decision	3 years, 9 months and counting
A.21-12-009: SCE Building Electrification Programs	Dec. 20, 2021	Jan. 22, 2024	3 years, 1 month

[8] PD at 81.

The extended timeframe for resolution of a utility Application directly conflicts with SB 1221. SB 1221 contemplates reports to the Legislature on or before March 1st of each year summarizing pilot project findings and a review of the efficacy of pilot projects beginning on January 1, 2029.[9] These reporting requirements reflect an expectation of progress. Yet by requiring a formal Application, it is highly unlikely that an SB 1221 Application filed in December 2026 would be decided before Q1 of 2028, rendering annual reporting in 2027 and 2028 an empty exercise. Once approved, implementation might not be finalized for another 6–12 months, putting the completion of the first set of proposed pilot projects into 2029, after the Legislature expected reporting on the efficacy of pilot projects.

Moreover, the legislative intent of SB 1221 was to enable iterative learnings to understand and overcome challenges to pilot implementation.[10] Yet under the PD, a utility would file its first Application and not have the benefit of a Commission decision to inform its subsequent Application the following year. This outcome further contravenes the intent of SB 1221 and exacerbates the legal error of the PD's misguided decision to require a formal application process for pilot project approval.

3. An Application Requirement Significantly Impedes the Likelihood of Pilot Project Success by Creating an Extended and Uncertain Time Lag Between Customer Engagement and Project Execution.

The PD requires significant public outreach and engagement prior to filing a pilot project Application, including "non-binding expressions of interest from no less than 67 percent of the property owners with natural gas service within the pilot project area" and engagement with tenants and local partners.[11] By requiring a formal Application for pilot project approval after a high level of deep customer engagement, affected tenants and property owners are put on hold for over a year while the Application and its many procedural steps work their way through the Commission. During this time, tenants and homeowners can move, existing gas appliances can burn out, project conditions can change, and the opportunity window for safely avoiding the gas

[9] Pub. Util. Code § 664.
[10] SB 1221, Sec. 1(c) ("It is further 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.").
[11] PD at 46; Appendix A at 5, Table B: Required Documentation of Notification.

pipeline replacement can slip away. The longer final approval drags on, the greater the likelihood of project failure. In requiring a formal Application, the PD needlessly impedes successful implementation of SB 1221 pilot projects.

These are not hypothetical concerns: challenges exactly like these occurred during the years-long deliberation over PG&E's CSU Monterey Bay Targeted Electrification Application. Following withdrawal of the project, PG&E emphasized lessons learned, including that a "Commission decision based on briefing and the contested issues would likely have been delayed for **four years after filing of the application**, thereby conflicting with PG&E's obligation to replace the CSUMB pipeline facilities consistent with its priority for safety."[12] Over the two years that the Application was being weighed at the Commission, PG&E struggled to maintain support and buy-in from residents, even contending with a disruptive change in the university's project lead over that time period.

The Application process also undermines the important work of CBOs in achieving successful deployment of pilot projects in at least two ways. First, after having invested significant time in obtaining preliminary consent and community excitement for zonal electrification, CBOs will be forced to begin the process all over again as enthusiasm and awareness wane due to the significant time lag between project submission and project approval. Second, CBOs face significant resource barriers to participating in time-intensive Application processes. The PD therefore puts CBOs in the impossible position of having to both build and maintain local support for an extended and unpredictable timeframe and navigate complex Commission procedures to ensure community needs are represented in project review. In contrast, an Advice Letter filing allows CBOs and other interested stakeholders to meaningfully and accessibly comment on proposed pilot projects while also significantly shortening the time between when customers are first engaged and when project implementation can proceed.

4. Advice Letter Review Provides Ample Transparency and Review of Pilot Projects.

The PD's cursory justification for an Application process is "[to] allow both the Commission and stakeholders to closely review the project proposals, increasing the

[12] Pacific Gas and Electric Company (U 39 G) Lessons Learned Report Pursuant to Ordering Paragraphs 3 and 4 of Decision No. 25-11-004 at 2 (Jan. 26, 2026) ("Lessons Learned"), https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M596/K752/596752064.PDF (emphasis added).

transparency and rigor of evaluation."[13] Yet, particularly given that key policy uncertainties are addressed in the PD, transparency and rigor can readily be achieved through Advice Letter submissions. As an initial matter, the PD either resolves key policy issues such as cost-effectiveness and cost-recovery or states that it will resolve others, such as the design of a shareholder incentive, later in this proceeding.[14] An Application process is therefore unnecessary to address policy questions. What remains is the mechanics of implementation, for which an Advice Letter is well suited. The information that the PD requires be included in a formal Application can just as easily be included in an Advice Letter filing. Underlying assumptions on cost-effectiveness calculations can be provided with the opportunity for party comment to provide for transparency and scrutiny. Accordingly, the Application process required by the PD poses grave risks to project viability and the iterative timely, iterative implementation of pilot projects contemplated under SB 1221 while providing minimal analytical and transparency benefits.

5. The PD Should Be Revised to Require an Advice Letter Approval Process and Strengthen Pre-Filing Requirements.

For the reasons set forth above, the Commission should require that the initial set of pilot project proposals be submitted through a Tier 3 Advice Letter rather than a formal Application. To ensure filings contain the requisite information to enable a transparent and rigorous evaluation, the PD should be further revised to require, rather than encourage, "applicants to engage with the Commission's Energy Division staff in at least one pre-filing meeting."[15] In addition, such pre-filing meetings should include the relevant electric utility serving the pilot project area to ensure the potential need for electric distribution upgrades is properly evaluated.

Sierra Club and NRDC are supportive of alternative Advice Letter processes, such as a Tier 3 Advice Letter for pre-approval of a suite of potential projects and proposed community engagement without customer consent requirements, followed by a Tier 2 or Tier 1 Advice Letter for final approval of selected projects that includes a requisite showing of community interest. This type of process would allow for further refinement and agreement on community outreach strategies, bill impact analyses, and expectations for gas utility, electric utility, CBO,

[13] PD at 16.
[14] PD at 58, 64–66.
[15] PD at 15.

and local government collaboration prior to significant engagement with affected customers. While there can be alternative Advice Letter formulations, what is critical is that the Commission adopt a process that minimizes the time between deep customer engagement and project execution to preserve customer satisfaction and the likelihood of project success.

B. The PD Should Ensure More Direct Input by Electric Utilities, CBOs, and Other Relevant Stakeholders in Development of Outreach Strategies and Materials.

The PD requires that the gas utility, with "other partners as appropriate," develop an overview of the SB 1221 program, an estimate of participant energy bill impacts, and other key project information and share it with potential participants prior to submission of a project application.[16] The PD then requires documentation of this outreach to be included for review as part of utilities' project applications, "[in] sufficient detail for the Commission to assess whether the outreach was conducted in good faith, timely, complete, and coordinated with coordinating entities."[17] While we support the Commission's intention to review and verify that project outreach is conducted "in good faith," we have significant concerns with this approach, which allows gas utilities to shape customer outreach with minimal upfront oversight and only allows for Commission and stakeholder feedback after customers have already been contacted.

For example, participant energy bill impact estimates should be developed or independently verified by the relevant electric utility, rather than solely by the gas utility proposing the project. Electric utilities have a deeper understanding of electric rate offerings, including the availability of an increased all-electric baseline rate or the potential benefits of moving to an electrification rate. Electric bill impacts depend on assumptions regarding electric rates and usage patterns – areas where electric utilities possess greater expertise and more accurate customer-specific data. Ensuring electric utility involvement in the development of bill impact estimates would improve the accuracy, credibility, and neutrality of the information presented to potential participants.

In addition, the Equitable Building Decarbonization ("EBD") Program relies on early engagement and partnership with trusted CBOs to provide "culturally appropriate outreach,

[16] PD Appendix A at 3.
[17] PD at 45. *See also* PD at 77-78, COL #32.

education, and support for participating households and communities."[18] The Commission should similarly require utilities to engage trusted local organizations or local governments early in the outreach process, rather than relying on utility-led communications. Aligning SB 1221 outreach requirements with the EBD framework would promote more effective customer engagement, improve trust, and help ensure that customers receive balanced and accessible information before making participation decisions.

Similarly, the PD continues to leave substantial discretion to the gas utilities regarding what planning information will be shared with project partners and community stakeholders. The PD acknowledges that utilities may need to "share confidential customer contact information with coordinating entities" and directs them to "exercise discretion," without specifying which information should be regarded as confidential.[19] As a result, utilities retain broad authority to determine what information is shared, with whom, and at what stage of project development. If a gas corporation were to decide to keep this information from the customer's electric service provider, this would preclude effective outreach, an understanding of the potential to leverage other efficiency and electrification programs, and the provision of accurate bill impact information.[20]

One way to ensure appropriate input and stakeholder engagement prior to significant community outreach is through the initial Tier 3 Advice Letter approval process outlined above in Section A.5. The gas corporation could put forth a list of potential projects and estimated cost-effectiveness, outreach strategies, the types of customer information it intends to share with electric service providers and other stakeholders, and bill impact analyses for party comment and Commission approval prior to conducting extensive outreach on specific projects. Once

---

[18] Cal. Energy Comm'n, Equitable Building Decarbonization Direct Install Program Guidelines (Oct. 18, 2023), CEC-400-2023-003 at iii. https://efiling.energy.ca.gov/GetDocument.aspx?tn=252682&DocumentContentId=87762.

[19] PD at 42.

[20] In addition, Sierra Club and NRDC reiterate our concerns with continued failure of public SB 1221 maps to provide street-level information on potential project locations. The gas corporations' confidentiality assertions are without merit and fundamentally undermine SB 1221 by preventing local stakeholder visibility over potential pilot locations until project proposals are largely developed, thereby limiting their ability to identify proposed SB 1221 pilots and engage with utilities in community-driven pilot development. *See* R.24-09-012, Comments of Sierra Club on the Gas Utilities' Compliance Filing Regarding Confidentiality (Sept. 26, 2025), https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M581/K738/581738183.PDF. The Commission should promptly deny utilities requests for confidential treatment of this information to unlock meaningful community engagement with gas system planning.

approved, a Tier 2 Advice Letter would be submitted for final project approval along with the necessary expressions of customer consent, or simply a Tier 1 Advice Letter that explains the projects moving forward with a demonstration of customer consent.

C. The PD Should Be Revised to Further Equitable Electrification as Envisioned Under SB 1221.

The PD further errs by failing to meet SB 1221's intent to "prioritize benefits to disadvantaged and low-income communities."[21] Given the potential health and safety remediations and other upgrades required in low-income households, equity-focused projects may cost more than non-equity-focused projects. Yet, in failing to allow for portfolio-level cost-effectiveness and proposing a shareholder incentive that exclusively focuses on cost savings, the PD is structured to discourage projects that further equitable electrification in direct contravention of SB 1221. To meet SB 1221's promise of equitable electrification, the PD should make the following changes:

1. Allow for an Equity-Focused Shareholder Incentive

The PD would establish a shareholder incentive "up to a set percentage of the pilots' actual cost savings" intended to encourage utilities to pursue pilot projects.[22] Sierra Club and NRDC continue to believe that regulatory asset treatment of behind-the-meter ("BTM") investments at the utility's standard rate of return is both permitted and necessary to incentivize SB 1221 pilots at a similar level to the long-term capital investments in fossil fuel infrastructure that would otherwise occur. However, to the extent the Commission is contemplating a shareholder incentive, the PD should be revised to also allow for the development of an equity-focused shareholder incentive. Because pilot projects serving low-income customers may be more costly due to remediation, higher customer density, or other factors, a shareholder incentive solely focused on cost-savings disincentivizes equitable electrification. Accordingly, the PD should be revised to also include the development of an alternative performance-based incentive for projects executed in disadvantaged or low-income communities.

2. Evaluate Cost-Effectiveness at the Portfolio Level

The PD proposes assessing cost-effectiveness at the project rather than the portfolio-level on the grounds that "one objective of SB 1221 is to evaluate the cost effectiveness of different

[21] SB 1221, Sec. 1(a)(8).
[22] PD at 67.

decarbonization approaches."[23] While individual project costs and benefits should be calculated and presented for each project to aid the Commission in assessing the cost-effectiveness of different decarbonization approaches, assessing cost-effectiveness at the portfolio level is critical to enabling the completion of equity-focused SB 1221 pilots. Evaluating cost-effectiveness at the portfolio level will make it easier for projects in DACs and low-income communities that may not be cost-effective on their own to move forward as part of a cost-effective portfolio, advancing the statutory goals of SB 1221. Nothing in the statute requires cost-effectiveness to be assessed at the project level, and to the extent the PD suggests otherwise it commits legal error. Assessing cost-effectiveness at the portfolio level is consistent with the statute, which specifically refers to cost-effectiveness across numerous "priority neighborhood decarbonization **zones**" and also directs the Commission to execute projects in zones that meet equity criteria, including a disproportionate lack of heating and cooling and/or the presence of ESJ communities.[24] The PD should therefore be revised to permit non-cost-effective pilot projects that benefit DACs and low-income communities as part of a portfolio of projects that are collectively cost-effective.

3. Clearly Define "Remediation" to Include Home Health and Safety Upgrades.

The PD establishes that 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,"[25] and it directs applicants to "propose ways to provide pilot participants with the remediation services necessary to safely install" electric appliances.[26] The PD does not clearly define remediation, but states that the definition may include panel upgrades, load management devices, and energy efficiency measures. The PD should clarify that these "remediation" services can also include measures to address urgent health and safety issues, such as asbestos and other building code violations, in homes.

Explicitly including these services in the definition of qualifying "remediations" is necessary to holistically serve low-income households through this program, who may

[23] PD at 60.
[24] SB 1221 Section 662(a)1 and 2 (emphasis added).
[25] PD at 75, COL #21.
[26] *Id.* at 26.

disproportionately experience home health and safety issues. The Commission should align with the remediation and safety definition in the CEC's whole-home EBD Program guidelines, which state that eligible measures "[m]ay include construction needed to create physical space for decarbonization measures, repair of roof or envelope leaks/damage, remediation of galvanized pipe, lead paint, asbestos, and/or mold, installation of smoke and carbon monoxide alarms, ventilation, and other work needed to bring property up to code."[27]

4. Set a Target of at Least 40 Percent of Pilots to Serve Disadvantaged or Low-Income Communities.

The PD should pair changes that properly incentivize equitable electrification and allow for increased costs of these projects with targets for deployment of pilot projects benefiting disadvantaged or low-income communities. For example, a minimum requirement that 40 percent of pilot projects be located in a disadvantaged or low-income community would equitably direct program investment toward ESJ communities and low-income households. At a minimum, utility submissions that do not meet this level of deployment should explain why more pilots were not located in ESJ communities. Without clear guidance, the Commission risks falling short of delivering funding to the communities that would benefit most from zero-emission appliances the most, and that are intended to be prioritized under SB 1221.

D. The PD Should Remove Unnecessary Ambiguity on Authorized Return and Recovery Period.

The PD should provide a clear framework for pilot project implementation to better enable subsequent approvals through Advice Letters and minimize future policy disagreements. With regard to a utility's authorized return and recovery period for pilot project costs, the PD states:

> [A]pplicants 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.[28]

This language suggests utility decisions on the length of time to amortize costs and whether to record costs at the interest rate or authorized cost of debt are subject to additional Commission

[27] EBD Program Guidelines at 17, https://efiling.energy.ca.gov/GetDocument.aspx?tn=252682&DocumentContentId=87762.
[28] PD at 66 (emphasis added).

decision-making. To remove ambiguity and the need for further deliberations on this issue, the PD should be revised to replace "may propose to" with "can" to clarify that utilities are free to choose how to recover costs within the parameters set by the PD.

E. The PD Should Further Clarify that Polluting Technologies Do Not Qualify as Zero-Emission Alternatives.

The PD should be revised to align its discussion of zero-emission alternatives with its Conclusion of Law. In discussion, the PD states it "does not set any constraints on the definition of zero-emission alternative," thereby appearing to leave the door open to polluting combustion technologies, such as hydrogen, propane, and biomethane.[29] However, in Conclusion of Law 7, the PD correctly finds that a reasonable definition for "zero emission alternative" is 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.[30]

Sierra Club and NRDC support the definition of a zero-emission alternative provided in Conclusion of Law 7 and recommend revising the body text of the decision for more clarity regarding the clear ineligibility of emissions-producing combustion technologies.

Clarifying that a zero-emission alternative does not include technologies that emit pollution is consistent with any plain reading of SB 1221. "When the statutory language, standing alone, is clear and unambiguous, courts usually adopt the plain or literal meaning of that language."[31] "Zero-emission" has a clear definition: it refers to technologies that do not produce direct climate or health-related emissions. For example, California statute defines "zero-emission" vehicles as those resulting in "zero exhaust emissions of any criteria pollutant (or

[29] PD at 13.
[30] PD at 72–73, COL #7.
[31] PG&E v. Hart High-Voltage Apparatus Repair & Testing Co., 18 Cal.App.5th 415, 429 (2017).

precursor pollutant) or greenhouse gas."[32] Even if zero-emission was somehow subject to more than one reasonable interpretation, "courts must select the construction that comports most closely with the apparent intent of the Legislature, with a view to promoting rather than defeating the general purpose of the statute."[33] Part of the intended purpose of deployment of zero-emission alternatives under SB 1221 is to "further California's efforts to reduce greenhouse gas emissions and improve air quality."[34] Deploying technologies with direct greenhouse gas and criteria air pollutant emissions undermines the intent of SB 1221. Accordingly, Section 4.7 of the PD, where the definition of a zero-emission alternative is discussed, should be revised to clarify that technologies that result in direct emissions are not zero-emission and therefore cannot qualify as SB 1221 projects. The PD should also be revised to recognize explicitly that hydrogen, propane, and biomethane are not eligible technologies for the SB 1221 pilots. Resolving this straightforward legal question in the PD is commonsense and will prevent utilities from proposing projects that are clearly inconsistent with the statutory language, enabling truly zero-emission pilots to move forward in a streamlined manner.

III. CONCLUSION

Sierra Club and NRDC appreciate the opportunity to provide comments on the PD.

Dated: June 18, 2026

Respectfully submitted,

/s/ Matthew Vespa
MATTHEW VESPA
REBECCA BARKER
Earthjustice
180 Steuart St. #194330
San Francisco, CA 94105
Tel: (415) 217-2123
Email: mvespa@earthjustice.org
rbarker@earthjustice.org

Attorneys for Sierra Club

/s/ Kiki Velez
KIKI VELEZ
Natural Resources Defense Council
111 Sutter Street, 21st Floor
San Francisco, CA 94104
Tel: (415) 875-6100
Email: kvelez@nrdc.org

Representing Natural Resources Defense Council

[32] Cal. Code Regs. Tit. 13, § 1962.2 - Zero-Emission Vehicle Standards for 2018 Through 2025 Model Year Passenger Cars, Light-Duty Trucks, and Medium-Duty Vehicles, (a) ZEV Emission Standard.
[33] PG&E v. Hart High-Voltage Apparatus Repair & Testing Co., 18 Cal.App.5th at 429.
[34] SB 1221, Sec. 1(a)(6).

APPENDIX A

PROPOSED REVISIONS TO FINDINGS OF FACT

Additional FOF: Combustion of hydrogen-methane blends, biomethane, and/or propane results in greenhouse gas and/or criteria pollutant emissions.

PROPOSED REVISIONS TO CONCLUSIONS OF LAW

Additional COL after COL #7: It is reasonable to conclude that technologies combusting hydrogen, biomethane, or propane are not eligible as "zero emission alternatives" because they produce emissions.

COL #10: It is reasonable for the Commission to require applicants to submit their first round of pilot proposals by ~~filing~~ submitting and serving Tier 3 Advice Letters ~~an application~~.

COL #11: It is reasonable for the Commission to set three stages (rounds) of Advice Letter Submissions ~~applications~~, with the first set of Advice Letters ~~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.

Additional COL after #11: It is reasonable for the Commission to allow second and third rounds of pilot proposals to be submitted for approval via Tier 2 Advice Letters.

COL #16: It is reasonable to require applicants, at a minimum, to include the following location information in their Advice Letters ~~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.

COL #18: It is reasonable for the Commission to require Advice Letters ~~applications~~ to include the information in the SB 1221 Pilot Submission ~~application~~ template that the Commission's Energy Division will post on the Commission website.

Additional COL after #21: It is reasonable for the Commission to define "remediation" for the purposes of SB 1221 Pilots in accordance with the California Energy Commission's Equitable Decarbonization Program guidelines.

COL #23: It is reasonable to require first-round submissions ~~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).

COL #24: It is reasonable for the Commission to require pilot proposal submissions ~~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.

COL #28: It is reasonable to require pilot proposal submissions ~~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.

COL #29: It is reasonable at this time for the Commission to require pilot proposal submissions ~~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).

COL #32: It is reasonable for the Commission to require pilot proposal submissions ~~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.

Additional COL after #32: It is reasonable for the Commission to require applicants to have at least one pre-submission meeting with Energy Division staff that includes both the gas utility and the electric utility serving the pilot areas.

COL #33: It is reasonable for the Commission to require pilot proposal submissions ~~applications~~ to list the coordinating entities with whom the applicants are coordinating and include any letters of support.

COL #35: ~~It is reasonable for the Commission to require applications to include nonbinding expressions of interest from the owners of 67 percent or more of the properties in the pilot project area.~~

COL #42: It is reasonable for the Commission to authorize gas corporations that plan to file a pilot proposal submission ~~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.

COL #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.