Decision 22-09-026 September 15, 2022

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Building Decarbonization.	Rulemaking 19-01-011

PHASE III DECISION ELIMINATING GAS LINE EXTENSION ALLOWANCES, TEN-YEAR REFUNDABLE PAYMENT OPTION, AND FIFTY PERCENT DISCOUNT PAYMENT OPTION UNDER GAS LINE EXTENSION RULES

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Summary

This decision adopts Energy Division's staff proposal to eliminate gas line extension allowances, the 10-year refundable payment option, and the 50 percent discount payment option provided under the current gas line extension rules. The elimination is for all customers in all customer classes effective July 1, 2023. This decision applies to new applications for gas line extensions submitted on or after July 1, 2023. Applications submitted before July 1, 2023 will not be affected by this decision.

These changes move the state closer to meeting its goals of reducing greenhouse gas (GHG)[1] emissions and combating climate change. The result will not only be significant reductions in GHG emissions but also improved quality of life and health for customers, hundreds of millions of dollars in ratepayer savings annually, greater equity for low-income customers, and greater certainty for builders, developers, and individual customers. This decision meets the statutory requirements as set forth in Public Utilities Code Section 783(b)-(d).

This proceeding remains open.

1. Procedural Background

1.1. Senate Bill (SB) 1477

On September 13, 2018, Governor Jerry Brown signed into law SB 1477 (Stern, 2018).[2] SB 1477 promotes California's building-related greenhouse gas (GHG) emission reduction goals, and makes available $50 million annually for

[1] *See* Appendix A for a list of abbreviations, acronyms, and definitions used in this decision.

[2] SB 1477 was codified as Public Utilities (Pub. Util.) Code Section 748.6, Section 910.4, and Sections 921-922.

four years,[3] for a total of $200 million, dedicated towards two building electrification pilot programs. The funds are derived from the revenue generated from the GHG emission allowances directly allocated to gas corporations and consigned to auction as part of the California Air Resources Board's (CARB) Cap-and-Trade program.[4]

On January 31, 2019, in response to the passage of SB 1477, the California Public Utilities Commission (Commission) initiated this rulemaking to support the decarbonization of buildings in California. The proceeding is:

> designed to be inclusive of any alternatives that could lead to the reduction of greenhouse gas emissions associated with energy use in buildings [related]… to the State's goals of reducing economy-wide GHG emissions 40% below 1990 levels by 2030 and achieving carbon neutrality by 2045 or sooner.[5]

1.2. Phase I

On May 17, 2019, the assigned Commissioner issued a Scoping Memo and Ruling setting forth the issues to be considered in Phase I of the proceeding (Phase I Scoping Memo). The Phase I Scoping Memo was amended on July 16, 2019 to include additional issues. Phase I was resolved in Decision (D.) 20-03-027, which established the two building decarbonization pilot programs required by SB 1477: the Building Initiative for Low-Emissions

[3] Fiscal Year (FY) 2019-2020 to FY 2022-23.

[4] Four gas corporations currently participate in California's Cap-and-Trade program: Southern California Gas Company (SoCalGas), Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southwest Gas Corporation (SWG).

[5] Order Instituting Rulemaking (OIR) 19-01-011 at 2.

Development (BUILD) Program and the Technology and Equipment for Clean Heating (TECH) Initiative.[6]

1.3. Phase II

On August 25, 2020, the assigned Commissioner issued an Amended Scoping Memo and Ruling setting forth the issues to be considered in Phase II of this proceeding and included an associated Energy Division Staff Proposal. Phase II was resolved in D.21-11-002, which: (1) adopted guiding principles for the layering of incentives when multiple programs fund the same equipment; (2) established a new Wildfire and Natural Disaster Resiliency Rebuild (WNDRR) program to provide financial incentives to help victims of wildfires and natural disasters rebuild all-electric properties; (3) provided guidance on data sharing; and (4) directed California's three large electric investor-owned utilities (IOUs)[7] to each study energy bill impacts that result from switching from gas water heaters to electric heat pump water heaters, and to propose a rate adjustment in a new Rate Design Window application if their study reflected a net energy bill increase. D.21-11-002 also directed the IOUs to collect data on fuels used to power various appliances, including propane.

1.4. Phase III

On November 16, 2021, the assigned Commissioner issued an Amended Scoping Memo and Ruling setting forth the issues to be considered in Phase III of this proceeding (Phase III Scoping Memo). Appended to the Phase III Scoping Memo were an Energy Division Staff Proposal (Phase III Staff Proposal or Staff Proposal) and a list of questions to be addressed by respondents and parties. Specifically, Phase III considers eliminating gas line extension allowances

[6] *See* D.20-03-027 at 7.

[7] Southern California Edison Company (SCE), PG&E, and SDG&E.

(allowances), the 10-year refundable payment option (refunds), and the 50 percent discount payment option (discounts) (collectively, gas line subsidies) provided under the current gas line extension rules (gas rules).[8]

The Phase III Scoping Memo set a schedule for the filing and service of comments and reply comments on the Staff Proposal. It also required that comments and reply comments be verified.[9] Verification enables the creation of a robust and reliable record, and allows the Commission to find facts based on those pleadings. It also set a deadline by which parties could file a motion to request evidentiary hearings to cross-examine parties on disputed issues of material fact stated in comments or reply comments, or to seek leave to serve prepared testimony, which in turn might be subject to cross-examination.

Lastly, in compliance with Pub. Util. Code Section 783(c),[10] the Phase III Scoping Memo requested assistance and input from the following state agencies

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[8] Gas Rules 15-16 for PG&E (https://www.pge.com/tariffs/assets/pdf/tariffbook/GAS_RULES_15.pdf, https://www.pge.com/tariffs/assets/pdf/tariffbook/GAS_RULES_16.pdf), SDG&E (https://tariff.sdge.com/tm2/pdf/GAS_GAS-RULES_GRULE15.pdf, https://tariff.sdge.com/tm2/pdf/GAS_GAS-RULES_GRULE16.pdf), and SWG (https://www.swgas.com/1409184638489/rule15.pdf, https://www.swgas.com/1409184638517/RULE_16--GRC_Eff-April-1-2021.pdf), and Gas Rules 20-21 for SoCalGas (https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/20.pdf, https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/21.pdf). Rule 15/20 pertains to gas distribution main extensions and Rule 16/21 pertains to gas service line extensions.

[9] *See* Rule 1.11 and Rule 18.1. Verification requires that the person filing the pleading knows that the statements in the document are true, except for matters which are stated on information or belief, and as to those matters requires that the person believes them to be true. Moreover, it requires that the person declare under penalty of perjury that the foregoing is true and correct. The Phase III Scoping Memo stated that unverified comments and reply comments would only be given the weight of argument.

[10] Pub. Util. Code Section 783(c) states: "The commission shall request the assistance of appropriate state agencies and departments in conducting any investigation or proceeding pursuant to subdivision (b), including, but not limited to, the Transportation Agency, the

Footnote continued on next page.

and departments: the California State Transportation Agency; the California Department of Food and Agriculture; the California Department of Consumer Affairs (DCA); the California Department of Real Estate (DRE); and the California Department of Housing and Community Development (HCD).[11] On November 17, 2021, the assigned Commissioner sent a follow up e-mail to the Executive Directors (or an equivalent position) of these agencies and departments and invited them to provide input on the Staff Proposal by December 20, 2021.

Verified comments and verified reply comments on the Staff Proposal were filed on December 20, 2021, and January 10, 2022, respectively, by 18 parties: PG&E, SDG&E, and SoCalGas (collectively, the Joint IOUs); SCE; SWG; the Public Advocates Office of the California Public Utilities Commission (Cal Advocates); Clean Energy; Coalition of California Utility Employees (CCUE); California Environmental Justice Alliance (CEJA), Environmental Defense Fund (EDF), Natural Resources Defense Council (NRDC), and Sierra Club (collectively, the Joint Parties); East Bay Community Energy (EBCE), Marin Clean Energy (MCE), Sonoma Clean Power (SCP), and Peninsula Clean Energy (PCE) (collectively, the Joint CCAs); The Utility Reform Network (TURN); and Small Business Utility Advocates (SBUA).[12] No comments or responses from the state agencies and state departments were received.

Department of Food and Agriculture, the Department of Consumer Affairs, the Bureau of Real Estate, and the Department of Housing and Community Development."

[11] Phase III Scoping Memo at 1 and 12.

[12] The parties filed individual pleadings in several instances and are cited as such in this order. The exception is when they filed jointly and are cited herein as Joint IOUs, Joint Parties, or Joint CCAs.

On January 28, 2022, the assigned Administrative Law Judges (ALJs) issued a ruling seeking clarifications and additional information to assist the Commission in resolving the Phase III issues. On February 21, 2022, comments were filed by Cal Advocates, Clean Energy, SBUA, the Joint Parties, PG&E, SWG, SDG&E and SoCalGas.

On March 22, 2022, the assigned ALJs issued a ruling revising the remaining proceeding schedule and addressing other procedural matters. Specifically, the ruling informed parties of a March 14, 2022, Energy Division data request (ED-DR) sent to PG&E, SoCalGas, SDG&E and SWG; directed the gas utilities to verify and serve their responses to the ED-DR on all parties; provided an opportunity for parties to comment on the gas utilities' responses to the ED-DR; and updated the schedule for the remainder of the proceeding. On April 4, 2022, the gas utilities verified and served their responses to the ED-DR. On April 11, 2022, Clean Energy filed comments on the gas utilities' responses to the ED-DR. On April 18, 2022, the assigned ALJs issued a ruling receiving into the evidentiary record the gas utilities' responses to the ED-DR (April 18, 2022 ALJ Ruling).

No motion was made for evidentiary hearing. No evidentiary hearing was held.

On May 4, 2022, opening briefs were filed and served by PG&E, SoCalGas, SDG&E, Cal Advocates, Clean Energy, the Joint Parties, TURN, and SBUA. On May 18, 2022, reply briefs were filed and served by PG&E, SoCalGas, SDG&E, Clean Energy, the Joint Parties, TURN, and SBUA. The record is the Staff Proposal; comments and reply comments; the gas IOUs' responses to the ED-DR; and parties' briefs. Phase III was submitted for decision on May 18, 2022 (upon receipt of reply briefs).

2. Issues Before the Commission

The Phase III Scoping Memo identified the following issues to be resolved:[13]

A. Whether the Commission should modify or eliminate gas line extension allowances for some or all customer classes (residential and non-residential);

B. Whether the Commission should modify or eliminate gas line extension refunds for some or all customer classes (residential and non-residential); and

C. Whether the Commission should modify or eliminate gas line extension discounts for some or all customer classes (residential and non-residential).

This decision addresses all the issues identified in the Phase III Scoping Memo and concludes Phase III of the proceeding. The proceeding remains open to consider additional building decarbonization issues in future phases.

3. Gas Line Subsidies

3.1. History of Gas Line Subsidies

The history of the gas rules in California dates back more than a century. With Commission decisions beginning in 1915 and continuing to today, California's gas IOUs have an obligation to provide prospective new customers the opportunity to receive utility service via a line extension based on a uniform set of rules. Under current rules, gas IOUs are not obligated to extend gas lines free of cost but must provide the opportunity for customers to be connected to the utility system at reasonable prices, terms, and conditions.

In general, applicants for new service must pay the full cost of the line extension and interconnection but are provided offsets for part of the cost. These offsets, or subsidies, were reasonable when utilities were in a declining cost

[13] Phase III Scoping Memo at 3-5.

industry, in which the addition of more customers led to reductions in the utility's costs and rates, thereby benefiting both old and new customers.

Conditions in the 1970s led the Commission to reconsider these gas line subsidies. These conditions included severe economic and energy challenges such as oil and natural gas embargos, shortages, and significant price increases; increasing cost and environmental concerns from the continued use, and new development of conventional thermal electric generating resources (including oil, gas, coal, and nuclear); inflation; economic stagnation; and repeated gas and electric utility cost and rate increases. In 1974, the Legislature requested that the Commission investigate electric rate structures and consider alternatives that would discourage, rather than encourage, increased energy consumption.

In 1977, the Commission opened an investigation to reconsider line extension rules given these fundamental changes.[14] Among the considerations was whether existing allowances for extensions of gas and electric service should be modified or abolished. Several decisions followed.

In D.91328, the Commission decided to abolish gas and electric line allowances, terminate refunds, and provide incentives for conservation.[15] On rehearing, the Commission decided to phase out line extension allowances over about five years, and established June 1, 1983, for the filing of utility tariffs to begin the phase-out.[16]

The legislature responded to the Commission's decisions ending and phasing out line extension allowances by passing an urgency bill to add

[14] Case 10260.

[15] D.91328, February 13, 1980.

[16] D.82-04-068, April 1982 and D.82-12-094, December 1982.

Pub. Util. Code Section 783.[17] The new law requires that the Commission continue the line extension rules that were in place on January 1, 1982, and not make any changes (with limited exceptions) unless the Commission made findings on each of seven issues set out in Pub. Util. Code Section 783. Shortly thereafter, the Commission rescinded all prior orders and closed its investigation into line extension rules.[18]

Further consideration of modifying or eliminating gas line subsidies is governed by Pub. Util. Code Section 783(b), which states that whenever the Commission:

> …institutes an investigation into the terms and conditions for the extension of services provided by gas and electrical corporations to new or existing customers, or considers issuing an order or decision amending those terms or conditions, the commission shall make written findings on all of the following [seven] issues.

In summary, the seven issues include an examination of the economic and other effects of line and service extension modifications upon residential and non-residential customers (*e.g.*, agricultural, commercial, industrial), locally funded governmental or district projects, redevelopment projects, existing ratepayers, energy consumption, and energy conservation.

Pub. Util. Code Section 783(c) requires that:

> The commission shall request the assistance of appropriate state agencies and departments in conducting any investigation or proceeding pursuant to subdivision (b), including, but not limited to, the Transportation Agency, the Department of Food and Agriculture, the Department of

[17] SB 48; Stats. 1983, Ch. 1229, Sec. 2, effective September 30, 1983.

[18] D.83-09-066, D.84-04-047.

> Consumer Affairs, the Bureau of Real Estate, and the Department of Housing and Community Development.
>
> Lastly, Pub. Util. Code Section 783(d) requires that:
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> Any new order or decision issued pursuant to an investigation or proceeding conducted pursuant to subdivision (b) shall become effective on July 1 of the year which follows the year when the new order or decision is adopted by the commission, so as to ensure that the public has at least six months to consider the new order or decision.[19]

This ensures that the public has at least six months to consider the new order or decision.

3.2. Line Extension Costs and Subsidies

Under current gas rules, the total cost of a gas line extension for an entity (*e.g.*, builder, developer, individual customer) who seeks connection to the utility system (applicant) is paid by the applicant at project commencement. The total project cost is divided into two parts: non-refundable and refundable.[20] Both the non-refundable and refundable parts are paid by the applicant, but the refundable costs are offset or subsidized by all other ratepayers. Refundable costs are first subsidized by "allowances." Refundable costs in excess of allowances, if any, are returned to an applicant via either: (1) refunds over 10 years; or

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[19] *See* https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=783&lawCode=PUC.

[20] Both "refundable" costs and "non-refundable" costs are specified in Section D.6 of Gas Rule 15 for PG&E, SDG&E, and SWG and Gas Rule 20 for SoCalGas. Per Section D.6.a of Gas Rule 15/20, refundable costs include the total estimated installed cost, including taxes, to complete the distribution line extension. Per Section D.6.c of Gas Rule 15/20, non-refundable costs include the estimated value of all substructures and other protective structures. Section E.5 of Gas Rule 16 for PG&E, SDG&E, and SWG, and Gas Rule 21 for SoCalGas specifies that service line extensions are not eligible for refund.

(2) a one-time 50 percent discount at the option of the applicant. These three gas line subsidies are further described below.

3.2.1. Allowances

For residential customers, allowances are fixed amounts awarded by appliance per residential unit. Each gas utility has different allowance levels. The table below has the current allowances.

Table 1. Current Residential Gas Line Extension Allowances
(Per Meter or Residential Dwelling Unit, on a per unit basis)

Item	PG&E[21]	SCG[22]	SDG&E[23]	SWG[24]	
				Southern California	Northern California / South Lake Tahoe
Water Heating	$1,391	$1,138	$643	$183	$231
Space Heating	$987	$987	$698	$674	$862
Oven/Range	$84	$201	$114	$69	$28
Dryer Stub	$24	$289	$160	$115	$70
Space Cooling	NA	NA	$1,098	$1,765	NA

For non-residential customers, allowances are provided by a formula that is calculated on a site-specific basis taking into consideration usage, demand, and

[21] PG&E rates effective January 1, 2022 (https://www.pge.com/tariffs/assets/pdf/adviceletter/GAS_4488-G.pdf).

[22] SCG Rule 20 Gas Rules approved in 2022 (https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/20.pdf).

[23] SDG&E rates approved in 2020 (https://tariff.sdge.com/tm2/pdf/2866-G.pdf).

[24] SWG rates are bifurcated into their two non-contiguous territories (https://www.swgas.com/1409184638489/rule15.pdf).

other factors. The allowance value is equal to "net revenue"[25] divided by "cost of service factor."[26]

In 2021, three of the four California large gas IOUs spent over $104 million on allowances ($81 million on residential allowances and $23 million on non-residential allowances).[27] We note that this amount does not include SDG&E's allowance expenditures.[28] Therefore, if SDG&E's allowance expenditures were to be included, the total amount would be higher.

3.2.2. Refunds

Under the refund option, the gas IOU returns remaining refundable costs (*i.e.*, those that remain after application of allowances) to the applicant over the course of 10 years. Adjustments are made if further development occurs, and new customers are added that utilize the same newly constructed segment of the gas distribution line to fairly allocate common costs.

In 2021, California's four large gas IOUs spent approximately $2.9 million on refunds ($1.5 million in residential refunds and $1.4 million in non-residential refunds).[29] We note that this amount does not include all of SDG&E's refunds

[25] "Net revenue" is a projection of how much additional revenue a gas IOU is expected to net annually as a result of a new customer using gas.

[26] "Cost of service factor" is a figure that represents the annual cost of servicing one dollar's worth of capital investment for which ratepayers must pay.

[27] The three IOUs are PG&E, SoCalGas, and SWG. The data does not include SDG&E's allowances because SDG&E says that information is not available due to the limitation of SDG&E's project management system. (April 18, 2022 ALJ Ruling, Attachment 3 and Attachment 5.)

[28] SDG&E did not provide data on allowances to the Commission. In explanation, SDG&E says its project management system does not facilitate data extraction of allowances granted or discounts provided. (*See* April 18, 2022 ALJ Ruling, Attachment 3 at 1.)

[29] April 18, 2022 ALJ Ruling, Attachment 5.

expenditures.[30] Therefore, if all of SDG&E's refund expenditures were to be included, the total amount would likely be higher.

3.2.3. Discounts

The discount payment option is an alternative to the refund option. If the applicant selects the discount option over the refund option, they receive a one-time 50 percent discount on the refundable costs that remain after application of available allowances. The discount is received at the time payments are due and the applicant does not need to wait for refunds over several years.

In 2021, three of four California large gas IOUs spent approximately $23.4 million on discounts ($17.7 million in residential discounts, and $5.7 million in non-residential discounts).[31] We note that this amount does not include SDG&E's discount expenditures.[32] Therefore, if SDG&E's discount expenditures were to be included, the total amount would be higher.

3.2.4. Total Subsidies

Over the last five years (2017 to 2021), California's four gas IOUs (with partial data for SDG&E) spent approximately $622 million (approximately $124 million annually) on gas line subsidies, including allowances, refunds and

[30] SDG&E refund data includes residential and commercial, but not other non-residential (*e.g.*, industrial, agricultural). (April 18, 2022 ALJ Ruling, Attachment 3 at 1.)

[31] The data does not include SDG&E's discounts because the information is not available due to the limitation of SDG&E's project management system. (*See* April 18, 2022 ALJ Ruling, Attachment 3 and Attachment 5.)

[32] SDG&E did not provide data on discounts to the Commission. In explanation, SDG&E says its project management system does not facilitate data extraction of allowances granted or discounts provided." (*See* April 18, 2022 ALJ Ruling, Attachment 3 at 1.)

discounts.[33] Over the next five years (2022 to 2026) if gas line subsidies continue, the gas IOUs (with partial data for SDG&E) anticipate they will spend approximately $819 million (approximately $164 million annually) on gas line subsidies.[34] The gas IOUs' data shows that this totals more than $1.4 billion over the 10-year period from 2017-2026 (about $144 million annually). The table below provides each of the gas IOUs' historical (2017-2021) and forecasted total gas line subsidies (2022-2026).[35]

Table 2. 2017-2026 Historical and Forecasted Total Gas Line Subsidies ($ million)[36]

IOUs	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total (2017–2026)
PG&E	$44	$57	$75	$88	$69	$101	$106	$105	$101	$97	$843
SoCalGas	$48	$55	$51	$51	$57	$57	$57	$58	$58	$58	$550
SDG&E[37]	$1	$2	$2	$2	$1	$1	$1	$1	$1	$1	$13
SWG	$4	$3	$7	$3	$3	$3	$3	$3	$3	$3	$35
Total	**$97**	**$117**	**$135**	**$143**	**$130**	**$162**	**$168**	**$167**	**$163**	**$160**	**$1,441**

Once the gas line extensions are built, the gas IOUs own and operate the facilities as a part of their systems. The IOUs recover the expended gas line subsidies as capital costs through their ratebase, subject to depreciation and rates of return over the depreciable life (*e.g.*, 30 years) of the line extensions. As a

[33] The total amount includes SDG&E's amounts for refunds but not for allowances and discounts because the information is not available due to the limitation of SDG&E's project management system. (*See* April 18, 2022 ALJ Ruling, Attachment 3 and Attachment 5.)

[34] April 18, 2022 ALJ Ruling, Attachment 5.

[35] *Id*.

[36] *Id*.

[37] Only partial data for SDG&E.

result, the total amounts paid by ratepayers (revenue requirements) associated with the 2017-2026 total gas line subsidies would be well above the $1.4 billion.

4. Energy Division Staff Proposal

The Staff Proposal recommends eliminating the gas line subsidies for all customer classes. Staff argues that California's gas line subsidies are designed to encourage gas usage, as affirmed in both D.89177 and D.91328, and that by allowing builders to receive a separate allowance for each approved appliance type, builders are incentivized to install more gas appliances in order to defray more costs. Those gas appliances, in turn, perpetuate reliance on gas service and lock in all associated GHG emissions for the life of the appliance, which averages 10 to 20 years for a gas water heater and 18 years for a gas furnace unless the appliance is retired early and replaced with an electric alternative. Additionally, a key strategy to reach carbon neutrality by 2045 is to phase out gas usage in the building sector. Any new gas infrastructure is likely to become a stranded asset. The maintenance and operational costs associated with gas infrastructure will need to be paid for by a shrinking number of future gas customers, which will be reflected in higher rates. These customers are likely to be low-income customers as they face the greatest barriers to electrification, including affordability challenges presented by the upfront costs of electrification. As such, the provision of gas line allowances makes it harder to meet California's GHG reduction goals while increasing the future cost of gas service for customers that are unwilling or unable to switch from gas to electric service.[38] The Staff Proposal provides further details on the following benefits in support of eliminating gas line subsidies for all customer classes.

[38] Staff Proposal. (*See* Phase III Scoping Memo, Appendix A at 24-25.)

4.1. Lowers Gas Consumption and GHG Emissions

The Staff Proposal states that since these subsidies promote the increased and continued use of gas, they perpetuate reliance on gas service and lock in all associated GHG emissions for the life of the appliance unless the appliance is retired early and replaced with an electric alternative. Staff argues that the elimination of these subsidies would result in less gas consumption, more electricity consumption, fewer GHG emissions and less air pollution.[39]

4.2. Results in Ratepayer Savings

According to data submitted by the gas IOUs, and served in response to the March 22, 2022 Assigned ALJs' Ruling, the total amount of subsidies provided across all four gas IOU territories (partial data for SDG&E)[40] in 2021 was approximately $130 million. The IOUs project this to increase in coming years, peaking at $168 million in 2023.[41] Because of data deficiencies from SDG&E, these reported aggregated numbers are undoubtedly lower than the actual subsidies being paid. Additionally, the Staff Proposal states that if a new dual fuel building were to be constructed without gas line subsidies, gas ratepayers would save even more as a result of an additional customer sharing in costs necessary to maintain the common carrier pipeline network, so eliminating the line extension subsidies would save ratepayers hundreds of millions of dollars. Although it is noted that these savings could be used for a multitude of useful purposes, the Staff Proposal does not at this time make any

[39] Staff Proposal. (*See* Phase III Scoping Memo, Appendix A at 35, 40, and 44.)

[40] The total amount excludes SDG&E's amounts for allowances and discounts because the information is not available due to the limitation of SDG&E's project management system. (*See* April 18, 2022 ALJ Ruling, Attachment 3 and Attachment 5.)

[41] April 18, 2022 ALJ Ruling, Attachment 2 and Attachment 5 at 2.

recommendations on diverting funds for other purposes, but instead highlights that cost savings make other investments possible without causing upward rate pressure.[42] Eliminating gas line subsidies for all new constructions would result in the following estimated minimum savings below.

Table 3. Estimated Annual Savings to Gas Ratepayers from Eliminating Residential Gas Line Subsidies ($ million)

Gas Line Subsidies	**2021 Expenditures[43]**					**Estimated Annual Savings[44] (Average of Forecast 2024-2026)**				
	PG&E	**SoCalGas**	**SDG&E**	**SWG**	**Total**	**PG&E**	**SoCalGas**	**SDG&E**	**SWG**	**Total**
Allowances	$39	$40	Did not provide	$2	$81	$47	$41	Did not provide	$2	$90
Refunds	$0.4	$0.1	$1	$.07	$1.57	$.5	$0	$1	$0	$1.5
Discounts	$15	$2	Did not provide	$0.5	$17.5	$18	$2	Did not provide	$0	$20
Total	**$54.4**	**$42**	**$1**	**$2.57**	**$100.07**	**$65.5**	**$42**	**$1**	**$2**	**$110.5**

[42] Staff Proposal. *See* Phase III Scoping Memo, Appendix A at 46.

[43] April 18, 2022 ALJ Ruling, Attachment 5.

[44] April 18, 2022 ALJ Ruling, Attachments 1-5. Estimates are averages provided by the IOUs of projected expenditures from 2024 to 2026. Year 2024 is the first full year that this decision would be in effect.

Table 4. Estimated Annual Savings to Gas Ratepayers from Eliminating Non-Residential Gas Line Subsidies ($ million)

Gas Line Subsidies	2021 Expenditures[45]					Estimated Annual Savings[46] (Average of Forecast 2024-2026)				
	PG&E	SoCalGas	SDG&E	SWG	Total	PG&E	SoCalGas	SDG&E	SWG	Total
Allowances	$8	$14	Did not provide	$1	$23	$13	$14	Did not provide	$1	$28
Refunds	$0.3	$0	$0[47]	$0	$0.3	$1	$0	$0	$0	$1
Discounts	$6	$0	Did not provide	$0	$6	$20	$0	Did not provide	$0	$20
Total	**$14.3**	**$14**	**$0**	**$1**	**$29.3**	**$36**	**$14**	**$0**	**$1**	**$49**

4.3. Places the Financial Responsibility on the Initiating Party

The Staff Proposal argues that eliminating gas line subsidies will force builders, or customers, to shoulder a greater portion of the expenses associated with gas line extensions if they choose to construct a building that uses gas or extends gas service on existing properties. That greater expense, in turn, would be passed on at the point of sale for a new building or directly absorbed by the customer for an existing building. This added up-front cost burden would send a signal to builders that building new gas infrastructure is more expensive, and thus make dual fuel new construction less desirable and more costly. As such, the builder community would be more likely to gravitate toward all-electric new construction. The Staff Proposal further notes that property price increases for

[45] April 18, 2022 ALJ Ruling, Attachment 5.

[46] Estimate based on IOU projections reported to CPUC and served as attachment in the April 18, 2022 ALJ Ruling. Figures are 2024 projections as that is the first full year that this decision would be in effect.

[47] Commercial only.

dual fuel new construction would become moot if all new homes and offices are built all-electric.[48]

4.4. Incentivizes New All-Electric Construction

The Staff Proposal argues that eliminating the gas line subsidies for all new construction would increase the number of newly constructed all-electric buildings which will likely cost less than newly constructed dual fuel buildings. Dual fuel buildings constructed without gas line extension allowances would be expected to cost more than they do today, but not by more than approximately 0.25 percent on average.[49] The Staff Proposal also notes that specifically eliminating refunds would remove additional incentives for builders to encourage even more dual fuel construction in the future. Because refund payments are contingent on additional dual fuel buildings being added to a newly constructed gas line extension, builders have a strong interest in adding more dual fuel homes in the vicinity of their dual fuel construction projects. Eliminating refunds removes such considerations and motivations for the builder.[50]

4.5. Provides Certainty to Builder Community for Future Projects and Planning

The Staff Proposal states that eliminating refunds has the additional benefit of encouraging a more predictable future for the building industry. California is already on a trajectory toward building decarbonization, which will eventually result in builders receiving less in refund payments as a greater percentage of homes and offices are built all-electric moving forward. Rather

[48] Phase III Scoping Memo, Appendix A at 31.

[49] Phase III Scoping Memo, Appendix A at 33-34 and 41.

[50] Phase III Scoping Memo, Appendix A at 36.

than have builders speculate as to whether they will ever be refunded their full advance payments for building gas infrastructure, eliminating refunds on a set date lets builders know from what point forward their refund payments will stop, thus enabling the builder community to build that knowledge into their project financing considerations and future revenue assumptions.[51]

4.6. Minimally Impacts Property Prices

The Staff Proposal argues that eliminating the gas line subsidies is not expected to lead to a significant rise in average property prices. To the extent that such a policy change leads to more all-electric new construction, those new homes and offices will be less expensive than if they were built dual fuel due to the elimination of any expense associated with installing gas infrastructure (*e.g.*, trenches, pipes, meters). If a builder opts to still build dual fuel, any resulting property price increase should be minimal.[52] If allowances are eliminated, residential property prices would increase between 0.21-0.25 percent,[53] and non-residential property prices would increase by 0.25 percent.[54] If refunds are eliminated, residential and non-residential property prices are estimated to increase by 0.07 percent.[55] If discounts are eliminated, residential and non-residential property prices are estimated to increase by 0.04 percent.[56] The combined effect of eliminating all subsidies (allowances,

[51] Phase III Scoping Memo, Appendix A at 37.

[52] Phase III Scoping Memo, Appendix A at 31-32.

[53] Phase III Scoping Memo, Appendix A at 32-33.

[54] Phase III Scoping Memo, Appendix A at 33.

[55] Phase III Scoping Memo, Appendix A at 32 and 37-38.

[56] Phase III Scoping Memo, Appendix A at 32 and 41-42.

refunds, and discounts) is 0.32-0.36 percent for residential and non-residential properties.[57]

5. Residential Gas Line Subsidies Revisions

Of the 18 parties commenting on eliminating the gas line subsidies for residential customers, 16 parties endorse the Staff Proposal (or suggest phased elimination) and two oppose.

5.1. Positions of Parties Supporting the Staff Proposal

The 16 parties who endorse the Staff Proposal to eliminate gas line subsidies for the residential sector (or who suggest phased elimination) are: PG&E, SDG&E, SCE, Clean Energy, Cal Advocates, CEJA, EDF, NRDC, Sierra Club, TURN, EBCE, MCE, SCP, PCE, and SBUA. SoCalGas did not oppose the recommendation on residential gas line extension allowances, refunds, and discounts as a policy matter. Parties supporting the Staff Proposal make several points.

- Elimination of the gas line subsidies will discourage construction of gas infrastructure while encouraging more all-electric new construction that together will help reduce GHG emissions and improve air quality consistent with California's decarbonization goals;
- Current gas line subsidies provide incentives to install appliances which largely lock-in that use over the 10 to 20-year life of the appliance, which are likely to become

[57] Non-residential property price impacts can be estimated based on the same logic used to estimate residential property price impacts. D.07-07-019 did not make any finding of fact regarding the property price impact associated with the elimination of line extension allowances for non-residential building, but the inputs and assumptions used to determine non-residential allowances (*e.g.*, demand, usage, *etc.*) are largely the same as for residential allowance computations. (Phase III Scoping Memo, Appendix A at 32.)

stranded assets given California's ambitious GHG emissions reduction goals;

- Elimination of gas line subsidies does not prohibit any customer from installing gas appliances in applications that need, or where the customer prefers, to use gas, but it relieves other gas ratepayers from subsidizing the extension for those customers and reduces average gas rates for all gas customers;
- Gas line subsidies originated when interconnecting more customers was thought to lower costs and benefit all; this is no longer the case and the benefits, if any, no longer outweigh the costs of increased GHG emissions and dependence on combustion fuels;
- The elimination of gas line subsidies will save ratepayers hundreds of millions of dollars; support equitable transition from gas to electricity; further California's climate goals; improve air quality and related health outcomes both inside and outside buildings; and provide greater certainty to builders, contractors, and gas distribution workers. Eliminating gas line subsidies is of particular benefit to low-income customers given these financial implications;
- Existing gas line subsidies work against the goals of multiple Commission-authorized building decarbonization programs also funded by ratepayers;
- There will be minimal or no overall negative impacts on workers, with the increased number of jobs in the electric industry being the same or more than the decrease of jobs in the gas industry;
- There will be minimal or no overall negative impacts on low-income customers, as programs such as BUILD, the California Energy Smart Homes Program, and discount rate programs such as the California Alternative Rates for Energy and Family Electric Rate Assistance help mitigate such upfront effects on the affordable housing and low-income sectors. Given their lower rate of new home

purchasing, low-income customers are not typically the ones benefitting from gas line subsidies, yet they contribute towards these subsidies which inequitably increases gas rates for all customers, including low-income customers;

- There will be minimal impacts on property prices, as all-electric new homes are less expensive to build than dual fuel homes. Additionally, programs such as the California Electric Homes Program will provide $75 million in financial incentives and technical support for the construction of new all-electric residential buildings;
- The Commission should consider changes to gas line extension rules in the broader context of California's climate change policy and consult with other state agencies;
- The Joint IOUs recommend a phased elimination to reduce the immediate negative impacts while still accomplishing the overall objectives in support of California's climate goals. In particular, they state that a phased approach would:[58]
    - Avoid near-term gas rate increases if the proposed changes substantially reduce the number of new connections relative to forecasts used in approved ratemaking proceedings;
    - Allow recognition of the varying schedules for future ratemaking proceedings;
    - Allow time for customers to account for increased project costs; and
    - Allow utilities time to study the impact on their electric load profiles and generation needs.

[58] Opening Comments of the Joint IOUs on Phase III Staff Proposal at 9-10.

5.2. Positions of Parties Opposing the Staff Proposal

The two parties who oppose the Staff Proposal in their comments are SWG and CCUE. They make several points in opposition.

- Gas line subsidies allow new customers access to clean, reliable, and affordable fuel (*e.g.*, renewable natural gas, hydrogen) that is poised to contribute significantly to decarbonization efforts;
- Fuel choice should be left to the customer and decisions to reduce GHG emissions should be energy commodity neutral;
- Natural gas systems can decarbonize and play an important role in meeting California's energy objectives;
- Prices for dual fuel homes will increase and prices for all-electric homes will decrease, requiring builders to charge more to offset the loss of the gas line subsidies where natural gas remains in demand (*e.g.*, cold climates);
- Gas rates will increase as fixed costs of the gas system will be spread over a declining customer base, leaving those who cannot afford to electrify or don't have the option to electrify, with higher gas rates;
- Gas industry workers will be negatively impacted, with fewer workers to safely operate and maintain the gas system, safely and properly decommission gas infrastructure, and install new technology, affecting safety and reliability;
- Grid reliability will be negatively impacted as California's supply of gas-fired generation decreases while the need for flexible, fast ramping generation and local reliability remains; and
- A decision in this proceeding should be delayed until Rulemaking (R.) 20-01-007 concludes because both proceedings address similar forward-looking gas infrastructure issues, and delineating the future of natural gas in California is a necessary threshold issue.

5.3. Discussion

5.3.1. Elimination of Gas Line Subsidies for Residential Customers: Approved

This decision adopts the staff's proposal to eliminate the residential gas line subsidies effective July 1, 2023. The elimination of subsidies applies to new applications for gas line extensions submitted on or after July 1, 2023, and will not affect applications submitted to the IOUs before July 1, 2023. Within 30 days of the date of this order, the gas IOUs shall each submit a Tier 2 Advice Letter (AL) to revise their respective gas rules to implement this decision.

We make this revision to the gas rules because it is consistent with state objectives and policy framework. It will move the state closer to meeting its goals of reducing GHG emissions and combating climate change. The cumulative ratepayer savings from avoided gas line subsidies over the life of the gas line extensions will be significant.

As noted above, the total amount in rates paid by all ratepayers (*i.e.*, revenue requirements) associated with the 2017-2026 total gas line subsidies will be at least $1.4 billion. In addition to the significant reductions in GHG emissions and ratepayer savings, these changes will also improve the quality of life and health for customers, provide greater equity for low-income customers, and greater certainty for builders, developers, and individual customers. These benefits are discussed in more detail below.

The Commission also notes the broad support for the Staff Proposal to eliminate the gas line subsidies for the residential sector from a cross-section of parties representing a wide range of interests (*e.g.*, utility, ratepayer, environmental, social justice, community choice aggregators). However, we also address other party concerns in more detail below.

5.3.1.1. Elimination of Residential Gas Line Subsidies Aligns with Overall State Decarbonization Goals

The current gas line subsidies were established during a period when the state's energy needs, and policy goals were very different from today's. They are no longer consistent with today's GHG emission reduction goals, the urgent need to reduce costs and rates, and the long term need to minimize future stranded investment.

The Commission agrees with the Staff Proposal, SCE, Cal Advocates, the Joint Parties, TURN, and the Joint CCAs that the continuation of these subsidies work against today's climate goals and conflicts with SB 32 and SB 1477. As the Staff Proposal correctly points out, current gas line subsidies encourage gas use by providing incentives to builders to install more gas appliances, perpetuating a continued reliance on the gas system both now and over the life of the appliance, and offsetting if not reversing any GHG emission reduction benefits secured through other decarbonization measures.

The Commission also agrees with the Joint Parties that the elimination of the gas line subsidies is essential in complementing the changes made to the 2022 Building Code,[59] which go into effect in 2023.[60] These changes include requiring an electric heat pump space or water heater in standard building design, and electrification readiness (including appropriate electric, space, and plumbing readiness to accommodate a heat pump water heater where not initially installed). The policy would also complement CARB's proposal, laid out in its

[59] 2022 Building Efficiency Standards (https://www.energy.ca.gov/programs-and-topics/programs/building-energy-efficiency-standards/2022-building-energy-efficiency).

[60] Opening Brief of Joint Parties at 7-8.

Draft 2022 State Strategy for the State Implementation Plan,[61] to implement a zero-emissions standard for all new space and water heaters by 2030, citing the "opportunity for substantial emissions reductions where zero-emission technology is available."[62]

5.3.1.2. The Elimination of Residential Gas Line Subsidies Improves Overall Quality of Life (GHG Emissions Reductions, Ratepayer Savings, Benefits to Low Income, Greater Certainty)

The Commission also agrees with the numerous supporting parties that the elimination of these subsidies will result in significant societal and ratepayer benefits. These benefits include GHG emission reductions, with improved health conditions for customers via improved indoor and outdoor air quality, with particularly reduced health risks from the reduction of high GHG emitting appliances inside a home. Low-income customers are most likely to face these health risks given they often have less effective stove ventilation systems.[63]

Other impacts include reducing or eliminating a range of other negative environmental effects including land use impacts, wildlife impacts, and impacts on water use and water quality. Building out the natural gas system can cause erosion of minerals and toxins into nearby streams, contamination of drinking water sources, and high levels of water use.[64]

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[61] Although still a draft, this proposal indicates the direction state policy is headed. CARB, Draft 2022 State Strategy for the State Implementation Plan at 86 (https://ww2.arb.ca.gov/sites/default/files/2022-01/Draft_2022_State_SIP_Strategy.pdf).

[62] Opening Brief of Joint Parties at 8.

[63] Opening Brief of Joint Parties at 8-9.

[64] Response of the Joint Parties to the January 28, 2022 Assigned ALJs' Ruling Seeking Clarifications and Additional Information at 5.

The benefits also include hundreds of millions of dollars in utility and ratepayer savings annually and over time. For example, the costs identified by Staff are the costs that the utility must spend each year for construction and installation.[65] Those costs are financed by the utility (*e.g.*, via stocks, bonds, retained earnings) so the funds are available to complete the line extension in the year requested. Those costs are then put into ratebase to be recovered over time (*e.g.*, 30 years) from ratepayers. Thus, the Joint Parties and TURN are correct that the savings identified in the Staff Proposal are understated with respect to the actual cost to ratepayers.[66] The cost is higher since recovery over 30 years costs ratepayers more than would a one-time charge. The elimination of gas line subsidies is one of many steps in furthering the decarbonization of buildings, while easing the burden on residential customers that currently subsidize the new interconnections. This is of particular benefit to low-income customers who face increasing affordability pressures. As the Joint Parties note, the current context perpetuates inequity (*i.e.*, low-income customers are not typically the ones benefitting from gas line subsidies given their lower rate of new home purchasing, yet they contribute towards these subsidies which increase gas rates for all customers).[67]

Additionally, eliminating gas line extension incentives will offer the benefit of greater certainty for the market. This is especially true for the builder community and the contractor community, as noted in the Staff Proposal.

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[65] The customer pays the entire line extension cost upfront, but that total is offset by the subsidies (allowances, refunds, discounts). The utility must fund the subsidies to get back up to the total line extension cost.

[66] Opening Comments of Joint Parties and TURN on Phase III Staff Proposal at 6.

[67] Opening Comments of Joint Parties and TURN on Phase III Staff Proposal at 2.

Lastly, eliminating gas line extension allowances is not expected to lead to a significant rise in average property prices per the Staff Proposal. To the extent that such a policy change leads to more all-electric new construction, those new homes and offices will be less expensive than if they were built dual fuel due to the elimination of any expense associated with installing gas infrastructure. On the other hand, construction cost/property prices are likely to increase for those that build dual fuel, necessitating gas line extensions. Data provided in the Staff Proposal, however, shows this increase is limited to about 0.32 percent to 0.36 percent.[68] The Commission agrees that this is a minimal effect on the total cost of a new residential and commercial building. Thus, we find the net benefits from these eliminations to be greater than the additional costs that would be placed on to builders or experienced by owners of new buildings choosing dual-fuel construction.

5.3.1.3. The Elimination of Residential Gas Line Subsidies Benefits Low Income and Vulnerable Communities

Eliminating gas line subsidies will advance equity. This occurs given that low-income customers contribute towards these subsidies through gas rates even though they are typically not the ones applying for, or benefiting from, the gas line subsidies (due to the fact that they are more likely to be renters than homeowners). Equity is advanced by revenue requirements being reduced for

[68] Staff Proposal from ruling of November 16, 2021 at 33 (*see* Phase III Scoping Memo, Appendix A). An increase of 0.036 percent is an increase of $36 for each $100,000.

everyone, including low-income customers, estimated at approximately $164 million annually.[69]

We also note the concern with low-income and vulnerable communities not having the means to electrify, and whether or not they will be "left behind" to carry the burden of higher gas rates as other customers leave the gas system. This is at least in part addressed by current programs, including BUILD and California Energy Smart Homes, which help mitigate these effects by offering subsidies and technical assistance to build homes that are all electric and beyond the current building code. BUILD, in particular, is focused on low-income housing.[70]

Lastly, the Commission agrees with the Joint Parties that:

> …negative implications for affordable housing developers and low-income home purchasers, in terms of upfront purchasing costs, are very small if nonexistent… at least one study has found that electrification in new construction reduces costs over the lifetime of appliances when compared to new homes built with fossil-fuel burning appliances.[71]

5.3.1.4. The Elimination of Residential Gas Line Subsidies Has a Net Positive Impact on Workforce

The Commission acknowledges that as more buildings electrify, there is likely to be a shift in demand for work in both the gas and electric fields. CCUE

[69] Over the next five years (2022 to 2026) if gas line subsidies continue, the gas IOUs (with partial data for SDG&E) anticipate they will spend approximately $819 million (approximately $164 million annually) on gas line subsidies (April 18, 2022 ALJ Ruling, Attachment 5).

[70] Program details about BUILD are available at: https://www.energy.ca.gov/programs-and-topics/programs/building-initiative-low-emissions-development-program. Program details about the California Smart Energy Homes program are available at: https://www.caenergysmarthomes.com.

[71] Opening Comments of CEJA, EDF, NRDC, Sierra Club, and TURN at 7

claims there will be a loss of more than 10,000 gas distribution jobs in California due to decarbonization,[72] while SCE claims a net gain of 7,000 full time jobs (12,400 full time electricity generation and distribution jobs offset by 5,400–6,800 fewer full-time gas distribution jobs).[73] The Commission agrees with SCE that there will likely be a net positive impact as we are likely to see an increase in demand for skilled workers in several economic sectors, including in the electric industry, construction jobs for energy efficiency improvements and building retrofits.

Additionally, since Track 2 of the Long-Term Gas Planning OIR, R.20-01-007, will be addressing the issue of ensuring an equitable future that minimizes workforce disruption, CCUE's concerns are best addressed in that proceeding. The Scoping Memo in that proceeding lays out a scope that includes how negative impacts on workforce from building decarbonization can be mitigated, what the costs of these mitigation strategies are, and who should be responsible for paying them, among other questions.[74]

5.3.1.5. The Elimination of Residential Gas Line Subsidies Maintains Customer Choice and Advances Equity

The Commission disagrees with SWG that we are removing customer choice by eliminating the gas line subsidies. We reiterate that customers can continue to select their choice of fuel. The only difference is that existing and

[72] Comments of the CCUE on Phase III Staff Proposal at 5.

[73] Comments of SCE on Phase III Amended Scoping Memo and Ruling of Assigned Commissioner at 4.

[74] OIR to Establish Policies, Processes, and Rules to Ensure Safe and Reliable Gas Systems in California and perform Long-Term Gas System Planning, Section 2.3.2 at 7 (https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M415/K275/415275138.PDF).

future gas customers will no longer have to subsidize investments in the gas infrastructure for new customers. Requiring the new customers to pay their full costs of gas line extensions only places the responsibility back onto builders or customers to shoulder a greater portion of the expense if they choose to construct a building that uses gas or extend gas service on existing properties. Therefore, this change aligns the cost responsibility with the customer who causes the costs, thereby advances equity for all customers.

5.3.1.6. The Elimination of Residential Gas Line Subsidies Will Not Create a Death Spiral

The Commission disagrees with CCUE that this decision will lead to a "death spiral." We acknowledge that the effect of eliminating gas line extension incentives would be that the cost of constructing a building that uses gas, or extends gas service on existing properties, may increase relative to the status quo. This cost would in turn likely be passed down at the point of sale for a new building or directly absorbed by the customer for an existing building. Neither CCUE nor any other party presents any credible data to show that the gas rates increase will cause the cost of a building to escalate so much that demand for buildings will disproportionately decline, leading to higher gas rates and even less building until the gas utility goes out of business, or some other catastrophic outcome for the gas system. Further, there is no support for the argument that there will be a "death spiral" due to the elimination of gas line extension subsidies that leads to an unreliable and unsafe utility system, as discussed more fully below.

Rather, eliminating gas line extension incentives will send a price signal that building new gas infrastructure is more expensive, thus making dual fuel new construction less desirable and financially riskier. As such, there would be a

gravitation toward all-electric new construction, leading to all the benefits described above, helping California meet its decarbonization goals. We conclude that these benefits outweigh any concerns about a hypothetical "death spiral" due to the decisions we make here.

5.3.1.7. The Elimination of Residential Gas Line Subsidies Maintains Gas System Reliability and Safety

CCUE argues that the elimination of the gas line subsidies will lead to fewer gas customers and higher rates, putting the utilities at risk of not having enough revenue to cover the costs to pay workers to maintain the system, which leads to a less safe and less reliable gas system. CCUE states that some of the anticipated impacts include fewer leaks detected and repaired (impacting both safety and the climate), reduced customer response levels at call centers, extended response time from reconnections, longer service outages, deferred reliability maintenance projects, deferred gas pipeline replacements, and slower emergency response times.[75]

CCUE's concerns are misplaced. The Commission disagrees with CCUE that eliminating gas line extension subsidies would adversely impact gas system reliability and safety. The Commission's regulatory and ratemaking process consistently ensures that utilities have sufficient resources to operate and maintain a safe and reliable system, and minimize rate impacts. The utilities' revenue requirement covers worker compensation, essential work including leak detections and leak repairs, appropriate customer response levels at call centers, reasonable response times, minimizing service outages, not deferring projects

[75] Comments of CCUE on Phase III Staff Proposal at 3-4.

that are necessary for reliability, not deferring replacements, and maintaining responsible emergency response times. There is no credible evidence that the authorized revenue requirements have been, or will be, inadequate to maintain safe and reliable gas systems. And there is certainly no evidence that utilities will not apply for additional funding as and when necessary. In setting the overall revenue requirement, the Commission does not micromanage how utilities spend their authorized revenue. Utility managements are responsible for allocating the authorized revenue (with limited exceptions) to meet all requirements of the utility system, and apply for additional funding when necessary.

But let there be no misunderstanding, safe and reliable services of the utilities the Commission regulate is our top priority. We disagree that the changes we make in this decision compromises that priority in any manner.

5.3.2. Elimination of Gas Line Subsidies for Residential Customers Through a Phased Approach: Denied

This decision denies the Joint IOUs' proposal to eliminate the gas line subsidies through a phased, or delayed, approach. The Joint IOUs argue that: (1) removing the gas line subsidies too quickly could result in a near-term increase in gas rates if the proposed changes substantially reduce the number of new connections relative to the forecasts within the utilities' approved and ongoing ratemaking proceedings; (2) gas utilities have varying schedules for their ratemaking proceedings so a utility-specific phase-in may be appropriate; (3) customers will have time to account for increased project costs; and (4) utilities will have time to study the impact to its electric load profile and

generation needs to ensure the safety and reliability of services.[76] The Joint IOUs recommend a workshop to explore these issues in more detail.

The Commission is not convinced by the Joint IOUs' arguments for a phased approach. Rather, we agree with SCE that we must pursue carbon neutrality with unprecedented urgency and commitment as California is already behind in meeting its 2030 emission reduction targets.[77]

The Joint IOUs do not provide a detailed plan for a phased approach (other than a recommendation to simply delay the elimination of the gas line subsidies). Nonetheless, the Commission considers each of the Joint IOUs' claims with the information we do have but do not find any of them convincing.

The Commission disagrees, for example, that eliminating gas line subsidies now could result in unreasonable near-term rate increases due to a reduction in the number of residential customers. In fact, no credible evidence is presented on what the impact will be on gas rates, let alone that it will be unreasonable. We understand that the change for residential customers due to the policy we adopt today may have an incidental effect on gas rates. We do not, however, foresee that it will be such a significant increase in the near term as to require a phasing in of our policy, particularly given the unprecedented urgency with which we must pursue carbon neutrality. Many variables affect the final determination of the gas rates. The Commission is not convinced that the policy change we adopt today requires special treatment; rather, it can be reasonably addressed when we address all relevant variables in determining gas rates.

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[76] Opening Comments of the Joint IOUs on Phase III Staff Proposal at 9-10.

[77] Comments of SCE on Phase III Amended Scoping Memo and Ruling of Assigned Commissioner at 2.

The Commission disagrees that utilities' varying ratemaking schedules require a utility-specific phase in. No credible evidence is presented that the impact on rates, if any, will be so dramatic that we must account for the timing of various ratemaking proceedings, nor that any effect on rates cannot be addressed within current ratemaking tools.

The Commission also disagrees that customers need more time to adjust. The available evidence is that all electric homes are less costly to construct than dual fuel homes. Customers do not need time to adjust when costs decline. Further, given that the elimination of the gas line subsidies would not take effect until July 1, 2023 (the time required by Pub. Util. Code Section 783(d)), there is already a reasonable amount of time built in for the change, particularly for those customers who still require dual fuel service. Therefore, the Joint IOUs' concerns about sufficient time with regards to the implementation of any changes have already been addressed by statute.

Finally, the Commission disagrees that electric utilities need time to study the impact on load and generation requirements. No credible evidence is presented that the change in the number of residential customers will cause such a dramatic change in the near term as to require delayed implementation in order to study load and generation requirements, particularly with respect to safety and reliability. The changes will be incremental and can be factored into current tools to forecast load and generation requirements to ensure safe and reliable service.

Utilities are obligated to provide safe and reliable service. The Commission adjusts rates so that each utility has the financial resources to do so. Utilities continually consider safety and reliability of their systems and make necessary changes. SCE says, for example, that it continuously evaluates how the grid must

evolve to support California's GHG reduction goals. Each year, SCE reports that it conducts transmission, sub-transmission, and distribution system planning assessments for a 10-year planning horizon that identify the grid needs to accommodate new generation resources, customer load and Distributed Energy Resource growth. SCE says it will continue working with the California Energy Commission (CEC) to develop the building electrification forecast and include it in the Integrated Energy Policy Report load forecast to ensure the reliable and affordable integration of building electrification growth into SCE's annual system planning assessments.[78]

The Commission expects that each electric utility, just like SCE, continuously evaluates how the grid needs evolve to support a wide range of goals, including California's GHG reduction goals.

Based on these considerations, the Joint IOUs' request for additional workshops is unnecessary and denied. We conclude that the elimination of the gas line subsidies for the residential sector effective July 1, 2023 complies with the timelines required under Pub. Util. Code Section 783(d) and should not be further delayed.

5.3.3. Continued Coordination/ Consultation with Other State Agencies: Approved

Cal Advocates recommend that the Commission coordinate with the state agencies that are responsible for the state building code (*e.g.*, the CEC) and that the Commission should "approach GHG reductions broadly and work to promote GHG reduction across all sectors."[79] The Commission agrees with

[78] Opening Comments of SCE on Phase III Amended Scoping Memo and Ruling of Assigned Commissioner at 14.

[79] Opening Comments of Cal Advocates at 3.

Cal Advocates that coordination is critical. The Commission has and will continue to consult with the CEC and CARB, and other agencies as appropriate, on these issues.

The publications of both CEC and CARB reflect relevant views on eliminating line extensions and building electrification, which we note here. The 2021 Integrated Energy Policy Report, published by the CEC, recommends that the "CPUC should continue to investigate eliminating line extension allowances for new gas hookups."[80] CARB has released its draft 2022 Scoping Plan for Assembly Bill 32 compliance, and dedicates an appendix chapter to building electrification, strongly advocating for electrification as a means to reduce GHGs from the building sector.[81] CARB notes that scaling back natural gas infrastructure is a potential action to support a successful transition to building electrification.[82] CARB further notes that the Staff Proposal to eliminate gas line subsidies "can encourage all-electric new construction and help alleviate future gas rate escalation."[83]

The Commission will continue to work closely with CEC, CARB, and other state agencies on these issues to ensure consistency in our approaches to GHG reductions broadly.

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[80] CEC, Final 2021 Integrated Energy Policy Report at 182 (https://efiling.energy.ca.gov/GetDocument.aspx?tn=241599).

[81] CARB, Draft 2022 Scoping Plan, Appendix F (https://ww2.arb.ca.gov/sites/default/files/2022-05/2022-draft-sp-appendix-f-building-decarbonization.pdf).

[82] CARB, Draft 2022 Scoping Plan, Appendix F (https://ww2.arb.ca.gov/sites/default/files/2022-05/2022-draft-sp-appendix-f-building-decarbonization.pdf).

[83] *Id.* at 22-23.

5.3.4. Delay Decision Until the Conclusion of the Long-Term Gas System Planning Rulemaking (R.20-01-007): Denied

SWG recommends that a decision on gas line subsidies be suspended until R.20-01-007 concludes because the relationship between this proceeding and R.20-01-007 requires further analysis, and that "delineating the future of natural gas in California is a necessary threshold issue." They argue that addressing similar forward-looking gas infrastructure issues in separate, concurrent proceedings could result in inconsistent factual findings and policy determinations, potentially causing future confusion and inefficiencies.[84] The Commission disagrees.

R.20-01-007 includes two tracks. The scope of Track 1A includes reliability standards that reflect the current and prospective operational challenges that face gas system operators. Track 1B addresses market structure and regulation. Track 2A addresses the appropriate gas infrastructure for California given the state's GHG reduction laws, addressing gas transmission and distribution infrastructure. Track 2B addresses equity, rate design, and gas revenues, with a particular lens for low-income customers and those residing in disadvantaged communities. Track 2C addresses forecasting and data.[85]

Both R.20-01-007 and this proceeding address issues relating to gas systems; however, the scope of this decision is narrowly focused on the elimination of the gas line subsidies. Our decision on this limited issue here will not have a material impact on any issues scoped in R.20-01-007. Therefore, we

[84] Opening Comments of SWG at 7.

[85] R.20-01-007 Scoping Ruling dated January 5, 2022 at 2-11.

deny SWG's recommendation to delay a decision in this proceeding until R.20-01-007 concludes.

6. Non-Residential Gas Line Subsidies Revisions

Of the 18 parties commenting on eliminating the gas line subsidies for non-residential customers, 12 parties support the Staff Proposal and six oppose.

6.1. Positions of Parties Supporting the Staff Proposal

The 12 parties who endorse the Staff Proposal to eliminate gas line subsidies for the non-residential sector are: SCE, Cal Advocates, CEJA, EDF, NRDC, Sierra Club, TURN, EBCE, MCE, SCP, PCE, and SBUA. In addition to many of the same points made supporting the elimination of the gas line subsidies for the residential sector as discussed above, they make these additional points in support of eliminating the gas line subsidies for non-residential customers:

- Elimination of the gas line subsidies is a reasonable and necessary step in pursuit of reducing GHG emissions given that California is at substantial risk of not achieving its SB 32 requirement to reduce emissions to 40 percent below 1990 levels by 2030, and as such, California must pursue carbon neutrality with urgency;
- Elimination of the gas line subsidies does not equate to a gas ban as builders and customers can continue to build new facilities with gas service capabilities, and there is currently no mandate prohibiting customers from continuing to install gas infrastructure; and
- Large non-residential customers are the most significant contributors to GHG gas emissions with great potential to drive problematic expansion of the main gas line infrastructure further beyond existing use areas.

6.2. Positions of Parties Opposing the Staff Proposal

The six parties who oppose the Staff Proposal to eliminate gas line subsidies for the non-residential sector are: PG&E, SDG&E, SoCalGas, SWG, Clean Energy, and CCUE. In addition to many of the same points made opposing the elimination of the gas line subsidies for the residential sector as discussed above, they make these additional points in opposition to eliminating the gas line subsidies for non-residential customers:

- There is continued need for gas and the natural gas system specifically in the industrial sectors that have yet to see energy options that can help them transition to a decarbonized future. Cleaner gases can replace or contribute to the natural gas service and full electrification, contributing to California's energy objectives;
- Removing gas line subsidies for large non-residential or industrial customers will result in a net increase in GHG emissions because it will disincentivize the use and production of cleaner gases, which can replace higher GHG emitting fuels, or "dirtier fuels";
- Removing gas line subsidies for large non-residential or industrial customers will increase project costs and create additional hardship, which may cause developers to slow down projects, abandon projects or develop projects outside California, negatively impacting California's economy; and
- Minimizing short lived climate pollutants (SLCPs) should be the Commission's top priority, as opposed to eliminating non-residential gas line subsidies, as these are the only reductions that benefit the climate immediately.

6.3. Alternate Proposals

6.3.1. Exemptions for Specific List of Projects that Provide Environmental or Financial Benefits (Joint IOUs)

The Joint IOUs propose to continue the non-residential gas line subsidies for several categories of non-residential projects that provide environmental or financial benefits to California ratepayers. They also propose a mechanism to update these categories periodically. According to the Joint IOUs, the following 10 non-residential projects would provide environmental or financial benefits to California ratepayers:[86]

- Renewable Natural Gas (RNG) or Hydrogen (Piped and Virtual);
- Compressed Natural Gas (CNG), Liquid Natural Gas, and Hydrogen Stations;
- Electric Generation Projects;
- Backup Generation Projects;
- Facility Conversions (facilities switching from dirtier fuels);
- Large Commercial Customers;
- Industrial Customers;
- Transmission Customers;
- Critical Load; and
- Restaurants (proposed by SDG&E and SoCalGas).

The Joint IOUs also propose that the categories of customers receiving gas line subsidies would be reviewed via a Tier 2 AL (to be filed every three years starting in 2026) or that a cadence for re-visiting the subsidies be established in the ongoing long term gas planning proceeding (R.20-01-007). In support, they

[86] Opening Comments of the Joint IOUs on Phase III Staff Proposal at 7.

say the review would ensure that gas ratepayers continue to benefit from providing gas line subsidies. According to the Joint IOUs, "non-residential customers identified as having economic and environmental benefits to gas ratepayers can shift over time and that the removal of residential allowances may have a negative impact on affordable housing developers."[87]

Additionally, PG&E proposes two new methods for calculating the allowance amounts for non-residential projects that provide environmental or financial benefits to California ratepayers: (1) the ability for all current calculations of distribution to be applied to the non-residential projects; and (2) the addition of a graduated discount when additional load reduces GHG emissions. PG&E also proposes that the gas line subsidies be modified such that customers cannot switch from core service to noncore service until the allowance amount is fully recovered through revenue. In support, PG&E states that the current practice of switching from core to non-core service creates an unsustainable loophole where core customers can receive a higher allowance amount which may not be fully repaid should they switch to non-core service before the allowance amount is recovered.[88]

6.3.2. Exemptions for Projects That Enable Hydrogen, RNG and CNG Use (Clean Energy)

Clean Energy recommends that the Commission prioritize the phase-out of diesel in the transportation, electricity, and agricultural sectors. To do this, Clean Energy proposes maintaining incentives for customers seeking to develop hydrogen, agricultural customers seeking to produce biogas and RNG from

[87] Opening Comments of the Joint IOUs on Phase III Staff Proposal at 10.

[88] Opening Comments of the Joint IOUs on Phase III Staff Proposal at 13.

manure, and private companies investing in CNG fueling stations that distribute RNG to facilitate reductions in SLCP.[89]

For the transportation sector, Clean Energy states that the gas line subsidies make construction of new CNG fueling stations financially viable and present opportunities for collocation with hydrogen fueling stations.[90] For the electricity sector, they argue that renewable gas, including biogas and hydrogen from organic waste, can provide the same reliability services with far lower emissions than diesel backup generators.[91] For the agricultural sector, they state that agricultural feedstock RNG (particularly negative carbon RNG feedstock such as animal agriculture) can significantly lower GHG emissions, and help the state achieve its climate goals.[92] Therefore continuing gas line subsidies for these customers will encourage further development of these "carbon beneficial" fuel options.

6.3.3. Application Process for Select Projects that Provide Environmental or Financial Benefits (Joint Parties and TURN)

The Joint Parties and TURN oppose providing any exceptions to offering the gas line subsidies, but state that if the Commission decides to provide limited exemptions, it should require the IOUs to submit a stand-alone application seeking ratepayer support for specific line extension projects. They assert that the

[89] Comments of Clean Energy on Amended Scoping Memo and Ruling and Staff Proposal at 2-3.

[90] Comments of Clean Energy on Amended Scoping Memo and Ruling and Staff Proposal at 11-13.

[91] Comments of Clean Energy on Amended Scoping Memo and Ruling and Staff Proposal at 6.

[92] Response of Clean Energy to Assigned ALJs' Ruling Seeking Clarification and Additional Information at 10-15.

IOUs should demonstrate that ratepayer funding is just and reasonable in light of reasonably anticipated ratepayer benefits and in furtherance of California's decarbonization policy.[93] Specifically, the Joint Parties propose that the application meet the following minimum criteria: (1) the extension does not emit local criteria or toxic air pollution; (2) the extension is not located in an environmental and social justice community; (3) the extension is consistent with all California climate goals; (4) the project does not claim any environmental credits; and (5) there are no feasible non-pipeline alternatives to the extension.[94] Given the need to verify these facts with discovery, the Joint Parties recommend an expedited application process that should receive at least the same level of scrutiny as a Tier 3 AL, where the applicants must demonstrate the factual basis for its assertions, and parties are allowed to conduct discovery to verify that each of the suggested criteria have been met. TURN also recommends that if exceptions are made to preserve gas line subsidies for some non-residential customers, the Commission should protect residential customers and require the non-residential customer classes to subsidize the costs.[95]

6.3.4. Assistance for Low Income, Rural and Small Businesses (SBUA)

SBUA supports the elimination of gas line subsidies for non-residential customers, but recommends replacing the allowance regime with direct assistance to small businesses not currently connected to gas infrastructure but who upgrade to high-efficiency electric appliances in furtherance of the state's

[93] Reply Comments of Joint Parties and TURN on Phase III Staff Proposal at 10-14.

[94] Response of CEJA, EDF, NRDC, and Sierra Club to the Assigned ALJs' Ruling Seeking Clarifications and Additional Information at 6-10.

[95] Reply Brief of TURN at 8.

GHG emission goals. More specifically, they propose: (1) opening a further phase of this proceeding to understand the support required to assist small businesses in overcoming barriers to electrification, such as by providing subsidies for appliance or panel upgrades in locations where stranded asset problems are most likely to be acute or where propane reliance is high; (2) establishing a pilot project to investigate the effectiveness of electrification incentive programs, akin to the San Joaquin Valley Pilots (D.18-12-015) referenced in the Staff Proposal; and (3) requiring electric utilities, through the advice letter process, to gather further data on bill savings comparisons between gas and electric usage and propose programs to address financial barriers to adoption of electric appliances.[96]

6.4. Discussion

6.4.1. Elimination of Non-Residential Gas Line Subsidies: Approved

This decision adopts the staff's proposal to eliminate the non-residential gas line subsidies effective July 1, 2023. The elimination of subsidies applies to new applications for gas line extensions submitted on or after July 1, 2023, and will not affect applications submitted before July 1, 2023. Within 30 days of the date of this order, the gas IOUs shall each submit a Tier 2 AL to revise their respective gas rules to implement this decision.

Gas line subsidies are eliminated for the non-residential sector for the same reasons as for the residential sector. These benefits include significant ratepayer savings, reductions in GHG emissions, combating climate change, improved overall quality of life, greater certainty for the builder community, and benefits

[96] Opening Brief of SBUA at 8-9.

to low-income customers. The Commission reiterates that the elimination of these subsidies is one of many necessary and important steps in furthering California's decarbonization goals, while easing the burden on gas ratepayers, ensuring grid safety and reliability, and continuing to promote alternative clean fuels.

We also adopt the proposal of the Joint Parties and TURN, with modifications, to allow individual applications for the provision of gas line subsidies for select unique projects meeting specific application criteria discussed below.

The Commission agrees with SBUA and other parties that large non-residential customers are the most significant contributors to GHG gas emissions,[97] making it especially important to adopt this policy change for this customer segment. Absent this change, non-residential customers create the great potential to drive problematic expansion of gas line infrastructure beyond existing use areas, and create additional stranded investment.

Therefore, we eliminate gas line subsidies to promote the many benefits of this policy. However, gas line subsidies may be extended to a limited number of unique gas line extension projects meeting specific criteria, and will be reviewed through the application process outlined below.

6.4.2. Exemptions for Specific List of Projects that Provide Environmental or Financial Benefits: Denied

This decision denies the Joint IOUs' proposal to continue offering gas line subsidies to their proposed list of 10 non-residential project categories that might

[97] Reply Brief of SBUA at 2 and https://ww2.arb.ca.gov/ghg-inventory-data.

provide environmental and financial benefits to ratepayers. We are not convinced by the Joint IOUs' argument that an exception for a specific group of projects is necessary given the urgent nature of California's decarbonization goals and the likelihood that any new gas investments could become stranded assets in the future. Rather, as explained below, the potential benefits of an exemption for a specific group of customers are outweighed by the environmental and stranded investment costs.

The Joint IOUs propose this exception for a group of large non-residential customers that they argue provide environmental and financial benefits. The categories, however, are very broad and vague, such as "large commercial customers" and "industrial customers." It would not be reasonable to adopt a category as broad as "industrial customers" since not every project serving an industrial customer can be said to provide environmental or financial benefits to California ratepayers. Adopting the Joint IOUs' proposal as is could effectively make the elimination for the gas line subsidies largely meaningless, while adding confusion and administrative inefficiencies to the process as the categories are reviewed and parties argue for adjusting the categories.

Moreover, most parties, even when prompted by the assigned ALJs to be more specific,[98] did not provide a sufficiently unambiguous and clear definition of what constitutes environmental and financial benefits for the Commission to adopt this as a workable basis to establish categories. Instead, the Joint IOUs only provide a list of 10 categories they claim provide financial and/or environmental benefits to California ratepayers.

[98] January 28, 2022 ALJ Ruling Seeking Clarification and Additional Information, Attachment 1 at 3.

PG&E and Clean Energy, on the other hand, propose the following definitions within the limited context of this proceeding. PG&E proposes:[99]

- Direct Environmental Benefit: A project offers a direct environmental benefit where it provides on-site GHG, NOx, or other pollutant reduction compared an existing fuel baseline.
- Indirect Environmental Benefit: A project offers an indirect environmental benefit where it displaces either existing gas system emissions (*e.g.*, through renewable natural gas) or off-site (*e.g.*, through CNG) GHG, NOx, or other pollutant emissions.
- Financial Benefit: Broadly, a new gas connection offers financial benefit to all gas ratepayers where the connecting customer financially contributes, via gas rates, in excess of the costs to extend gas service to that customer. The customer may also offer financial benefit in the form of externalities that are more difficult to quantify (*e.g.*, job creation, increased state and local tax revenue, and local development).

Clean Energy proposes:[100]

- Environmental Benefit: (a) receipt of any tradable environmental attributes; (b) reduction of SLCPs; (c) reduction of GHG emissions; or (d) reduction of regulated air or water pollutants.
- Financial Benefit: (a) addresses the pay-back period for the gas line subsidies; (b) reduces system costs by more than the cost of the subsidy; or (c) contributes significantly to racial or social equity, public health, community resilience, or a robust economy.

[99] PG&E's Response to Assigned ALJ's Ruling Seeking Clarification and Additional Information at 6-7.

[100] Reply Comments of Clean Energy on Amended Scoping Memo and Ruling and Staff Proposal at 4.

We appreciate the proposals of PG&E and Clean Energy but find these definitions overly broad and lacking in adequate benchmarks or specific criteria for how to establish the 10 categories for potentially vast numbers of different projects, all of which would qualify for the exception. Absent an adequate definition or a reasonably accurate baseline for calculating environmental or financial benefits, many categories of projects could broadly make a case for the exception, and many customers might be granted exemptions even if the criteria are imprecise. We share TURN's concern that:

> Any project that adds new customer load to the gas system could, all else being equal, provide a contribution to margin for at least some amount of time. However, any system buildout today could become a stranded asset well before the end of the asset's life because of electrification — whether mandated by state or local building codes or inspired by ratepayer-funded incentive programs and market transformation. This serious risk cuts against any near-term financial benefits from increased sales associated with new customer load.[101]

Thus, along with the lack of adequate definitions and criteria provided by the Joint IOUs, PG&E and Clean Energy, and without sufficient information and analysis on the record, we are not convinced that continuing gas line subsidies for this broad set of non-residential projects would lead to the benefits claimed.

We acknowledge that there may be limited circumstances where gas line extensions for some non-residential projects can be beneficial. Nonetheless, these potentially limited circumstances are not sufficient to warrant blanket subsidies for various broad categories of projects, such as the 10 project types proposed by the Joint IOUs. Not only would this be complicated, but more importantly, this

[101] Opening Brief of TURN at 8.

would be misaligned with California's overall decarbonization goals. Exceptions for such broad categories of projects would perpetuate, even if on a smaller scale, the continued reliance on gas and locking in gas use for the life of the asset.

Instead, we adopt a limited alternative below that considers applications for specific and unique projects meeting a narrow set of criteria that may warrant gas line subsidies. This will account for the special cases of environmental, financial, or other benefits without creating up to 10 broad project categories.

This decision also denies PG&E's proposal for two new methods for calculating allowance amounts. We find this proposal now moot since we eliminate all gas line subsidies. Moreover, we do not wish to complicate the application process described below with additional factors.

6.4.3. Exemptions for Projects That Enable Hydrogen, RNG and CNG Use: Denied

This decision denies Clean Energy's proposal to continue offering blanket gas line subsidies for non-residential transportation, agricultural, commercial, and industrial projects that enable RNG use in order to prioritize reduction in SLCP emissions. We are not convinced by Clean Energy's argument that gas line subsidies should continue to be offered to the non-residential sector to advance the goal of reducing SLCPs. Rather, we believe that ending gas line subsidies and supporting the hydrogen/RNG/CNG sector to reduce SLCPs can be successfully achieved together.

Clean Energy claims that the lack of gas line subsidies could be the sole reason that a new project will not be built, because the project may no longer be economical.[102] Clean Energy argues that typically, a CNG project will cost

[102] Opening Brief of Clean Energy at 24.

approximately $1.5-$2.0 million plus a gas line extension cost of $400,000-$500,000 — approximately 25 percent of the investment.[103] Clean Energy does not, however, state whether the full gas line extension cost is eligible for gas line subsidies. As noted earlier in this decision, gas line extension costs are made up of a refundable portion and a non-refundable portion, with only the refundable portion being eligible for a subsidy. Clean Energy also does not provide data on average subsidies received for its projects. Recent data provided by the IOUs show the following average non-residential subsidies paid below.

Table 5. Average Subsidies Paid to Non-Residential Projects in 2021

	Average Subsidies Paid Per Project in 2021[104]			
Gas Line Subsidies	**PG&E**	**SoCalGas**	**SDG&E**	**SWG**
Allowances	$12,030	$7,058	Not Provided	$107,228
Refunds	$490	$0	$9,056	Not Provided
Discounts	$8,702	$74	Not Provided	$4,418

Although these average subsidies are not identified by project type, we note that they are far below the CNG gas line extension estimate of $400,000 to $500,00[105] provided by Clean Energy. Given the absence of sufficient information to support Clean Energy's claim, and based on the gas IOUs' 2021 average subsidies as shown above, the Commission is not convinced by the speculative argument that eliminating the gas line subsidies for non-residential project could be the sole reason that a new project will not be built.

[103] *Id. at* 30.

[104] April 18, 2022 ALJ Ruling, Attachment 5.

[105] Assuming the full amount is refundable as defined under the gas rules.

While this analysis suggests that the average subsidies may be small compared to the overall project costs, we acknowledge that there may be some CNG/RNG/hydrogen projects at the margin where the subsidy makes up a larger portion of total project costs. However, no compelling evidence demonstrates that the gas line subsidies are actually necessary, or are the tipping point, to encourage these larger customers to make the "cleaner" gas investments. Rather, many factors are involved in a developer deciding to develop or not develop a project. While we understand that the elimination of these subsidies would make some projects more expensive, simply pointing this out does not prove it is the driving or controlling factor in a decision, and we are not convinced, absent specific evidence or examples of representative projects, that it is a significant enough change to halt such projects altogether. This is especially true given that there are existing subsidies and programs that offer incentives for the development of alternative fuels, including $40 million for bio-SNG (synthetic natural gas) incentives that was authorized in D.22-02-025.[106]

The Commission also disagrees with Clean Energy that by making these projects more expensive, we are decelerating the move towards the use of cleaner fuels in the transportation/mobility sector that would otherwise reduce GHG emissions and help displace SLCPs. Many factors affect the use of alternative fuels in transportation, such as technology and state policy. As discussed above, gas line subsidies date back to the 1970s and the current rules on gas line subsidies were adopted in 2007. Yet, Clean Energy's data shows that only

[106] D.22-02-025, Ordering Paragraph 43.

3 percent of trucks in large fleets are powered by natural gas, and 0.01 percent are powered by hydrogen.[107]

Although we agree with Clean Energy that the use of CNG/RNG/ hydrogen is a preferred option over diesel and other "dirtier" fuels during a transition to full electrification, it is still not the preferred option in the long term over full electrification.[108] Our priority in the long term is to move away from fossil fuels altogether, including in the transportation sector, as opposed to supporting less harmful fossil fuels. This has been consistent and reiterated in several Commission proceedings.[109] It is also the policy of our sister agencies, which have also encouraged the move away from fossil fuel investment. For example, the CEC's California Clean Transportation Program has shifted focus significantly since 2019 to heavily prioritize zero emission vehicles (ZEVs) over near zero emission vehicles. CARB has adopted rules requiring 100 percent medium duty and heavy duty ZEVs by 2045 (to the fullest extent feasible). It has explained that "Infrastructure for methane trucks is expensive and would become a stranded asset if use of those [electric-fueled] trucks continued to expand; EV infrastructure, in contrast, will be needed indefinitely."[110] In light of these state policies, long term gas line subsidies to expand CNG infrastructure does not merit a categorical exemption from our overall policy adopted here.

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[107] Opening Brief of Clean Energy at 28.

[108] Further, even though electrification is our preferred option, we recognize that for now, RNG plays an important role in reducing GHG emissions. This decision is not intended to conflict with that policy, as outlined in D.22-02-025.

[109] D.22-03-006, D.19-09-051, D.22-02-025, and Rejection of SoCalGas's AL 5590.

[110] CARB Technical Analysis of End of Useful Life Scenarios at 2 (https://ww2.arb.ca.gov/resources/documents/technical-analysis-end-useful-life-scenarios-statewide).

Additionally, we note that most of the cleaner fuels are already heavily subsidized, and eliminating the gas line subsidies would not undermine their development in any significant way. The table below summarizes these subsidies as approved by the Commission, and does not include additional subsidies that may be available from other sources.

Table 6. Commission Approved Subsidies for Alternate Fuels

Fuel type	Subsidy Budget	Authorized By
Bio-SNG	$40 million	D.22-02-025
Biomethane	$40 million	D.15-06-029
Biomethane (augment)	$40 million	D.20-12-031

Lastly, we reiterate that the elimination of these subsidies does not remove the builder or developer's choice to build the CNG/RNG facility, it only requires that the costs caused by new customers be paid by those customers. And, in the limited cases where a gas line subsidy may still be warranted, we provide an application process below to consider specific, unique projects that claim to be unable to proceed without a gas line subsidy.

6.4.4. Application Process for Select Projects that Provide Environmental or Financial Benefits: Approved with Modifications

This decision approves the Joint Parties and TURN's proposal for an application process, with modifications, for those specific, unique non-residential projects where a gas line subsidy may still be warranted. For these projects, the gas IOUs shall evaluate the project based on the criteria established in this decision and file an application with the Commission for approval of a gas line subsidy on behalf of the project applicant(s).

The IOUs shall ensure that projects seeking a gas line subsidy shall meet the following minimum criteria based on the information provided by the applicant(s) before including it in an annual filing to the Commission seeking such subsidies. These minimum requirements are:

(1) The project will lead to a demonstrable reduction in GHG emissions;

(2) The gas line extension required for the project is consistent with California's climate goals, including those articulated in SB 32 (Pavley, 2016); and

(3) The project applicant demonstrates that it has no feasible alternatives to the use of natural gas, including electrification.

We do not include the other criteria proposed by the Joint Parties and TURN (the extension is not located in an environmental and social justice community, and the project does not claim any environmental credits) at this time. We are not persuaded that these additional criteria are necessary in assessing the impacts of the project.

If there are projects seeking gas line subsidies that an IOU determines meets the above criteria, the IOU shall file an annual application, by July 1 of each year beginning in 2023, and include all qualified projects requesting a gas line subsidy. Even though this decision eliminates gas line subsidies for all customer classes, it does not change the methodology for the calculation of gas line subsidies if the Commissions grants gas line subsidies for specific projects through the application process. In its annual filing, each IOU should include an update to the non-residential gas line extension allowance calculations based on the current methodology (including all inputs used, *e.g.*, cost of service factor). The IOUs, on behalf of the project applicant(s), must demonstrate the factual basis for the project applicants' assertions, and confirm that the minimum

requirements have been met based on the information provided by applicants.[111] The Commission will evaluate the types of applications that are found to be deserving of gas line subsidies over the next few application cycles, and may revisit the need for categorical exemptions at a later time. The IOUs may propose potential categorical exemptions in their annual filing after two application cycles. The IOUs may also reference similar projects that have received gas line subsidies in their annual filing, and over time, this could reduce the burden on applicants and IOUs in demonstrating eligibility for these subsidies.

Lastly, the Commission denies TURN's proposal to modify the cost allocation/collection methodology of these subsidies to only require non-residential customer classes to subsidize the costs.[112] We do this because these projects, if approved for subsidies through this application process, would have demonstrated that they will reduce GHG emissions and be consistent with California's climate goals. This benefits all ratepayers, not just the non-residential customer class. The Commission also believes the resulting subsidies, if any, will not be so large as to justify the additional administrative burden to distribute the costs in proportion to the benefits received by customer class.

6.4.5. Assistance for Low Income, Rural and Small Businesses: Approved with Modifications

We approve SBUA's proposal to further investigate the needs of small businesses not currently connected to gas infrastructure that move towards electrification. Although this decision does not make any special exceptions for

[111] Each IOU must determine that each applicant's project meets the criteria based on the information provided by the applicants. In addition, each IOU's application may include prepared proposed testimony from the applicant in support of the application.

[112] Reply Brief of TURN at 8.

the treatment of small businesses in regard to electrification, we are committed to considering the unique challenges to electrification faced by small businesses in future phases of this proceeding.

7. Compliance with Pub. Util. Code Section 783(b)-(d)

Pub. Util. Code Section 783(b) states that:

> Whenever the commission institutes an investigation into the terms and conditions for the extension of services provided by gas and electrical corporations to new or existing customers, or considers issuing an order or decision amending those terms or conditions, the commission shall make written findings on all of the following issues:
>
> (1) The economic effect of the line and service extension terms and conditions upon agriculture, residential housing, mobile home parks, rural customers, urban customers, employment, and commercial and industrial building and development.
>
> (2) The effect of requiring new or existing customers applying for an extension to an electrical or gas corporation to provide transmission or distribution facilities for other customers who will apply to receive line and service extensions in the future.
>
> (3) The effect of requiring a new or existing customer applying for an extension to an electrical or gas corporation to be responsible for the distribution of, reinforcements of, relocations of, or additions to that gas or electrical corporation.
>
> (4) The economic effect of the terms and conditions upon projects, including redevelopment projects, funded or sponsored by cities, counties, or districts.
>
> (5) The effect of the line and service extension regulations, and any modifications to them, on existing ratepayers.

(6) The effect of the line and service extension regulations, and any modifications to them, on the consumption and conservation of energy.

(7) The extent to which there is cost-justification for a special line and service extension allowance for agriculture."[113]

Pub. Util. Code Section 783(c) states that:

The commission shall request the assistance of appropriate state agencies and departments in conducting any investigation or proceeding pursuant to subdivision (b), including, but not limited to, the Transportation Agency, the Department of Food and Agriculture, the Department of Consumer Affairs, the Bureau of Real Estate, and the Department of Housing and Community Development.[114]

Lastly, Pub. Util. Code Section 783(d) requires:

Any new order or decision issued pursuant to an investigation or proceeding conducted pursuant to subdivision (b) shall become effective on July 1 of the year which follows the year when the new order or decision is adopted by the commission, so as to ensure that the public has at least six months to consider the new order or decision.[115]

7.1. Staff Proposal

In response to Pub. Util. Code Section 783(b) the Staff Proposal addresses each of the seven issues as follows.[116]

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[113] *See* https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=783&lawCode=PUC.

[114] *See* https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=783&lawCode=PUC.

[115] *See* https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=783&lawCode=PUC.

[116] Phase III Scoping Memo, Appendix A at 33-36, 38-40, and 42-45.

On Issue 1, Staff expects that the elimination of gas line subsidies would increase the number of newly constructed all-electric buildings and that prices for those all-electric buildings will likely be less than those for an equivalent newly constructed dual fuel building. Dual fuel buildings constructed without gas line subsidies would be expected to cost more than they do today, but minimally (anywhere from 0.07 percent to 0.25 percent depending on the gas line subsidies type). Whether or not customer bills would be higher or lower in a new all-electric building vis-à-vis a new dual fuel building would depend on numerous factors that include tariff type, climate zone, future electricity prices, future gas prices, customer energy consumption habits, and time of energy usage.

On Issue 2, Staff does not expect the elimination of gas line subsidies to affect the current methods of providing transmission or distribution facilities for future customers, as the Staff Proposal is not proposing to modify such rules. If gas line subsidies are eliminated as proposed, and builders increase their rate of all-electric new construction, builders building dual fuel new construction further away from a point of gas pipeline interconnection could expect to pay more than they otherwise would be expected to if they have to pay for additional trenching and infrastructure that neighboring all-electric buildings did not need and thus did not help pay to extend from its current cut-off location.

On Issue 3, Staff expects the elimination of gas line subsidies for all new construction to result in increased costs to any customer seeking to extend a gas line. Depending on what infrastructure upgrades are necessary to extend gas service to the customer's building, the increased costs would vary.

On Issue 4, Staff does not expect the elimination of gas line subsidies for all new construction to result in changes specific to projects sponsored by cities,

counties, or districts, as the Staff Proposal is not proposing any such changes. Should those projects be constructed all-electric, they will be less expensive than they are today, and should those projects be constructed dual fuel, they are anticipated to be only slightly more expensive than they are today.

On Issue 5, Staff expects the elimination of gas line subsidies for all new construction to lead to an annual reduction of approximately $115,528,305 in allowances,[117] $2,625,678 in refunds,[118] and $26,195,639 in discounts[119] (with partial data for SDG&E) as a result of gas ratepayers no longer having to pay for gas line subsidies.[120] If a new building were to be constructed dual fuel without a gas line subsidy, gas ratepayers would save even more as a result of an additional customer sharing in costs necessary to maintain the common carrier pipeline network.

On Issue 6, Staff expects the elimination of gas line subsidies for all new construction to result in less gas consumption and more electricity consumption. Because gas consumed in California is overwhelmingly non-renewable and electricity is increasingly carbon-free, the encouragement of fuel substitution associated with adoption of Staff's recommendation would result in fewer GHG emissions and less air pollution. However, additional electrical load will gradually result in the need for additional electricity procurement and could pose challenges to managing winter peak electric demand if not properly planned for.

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[117] Phase III Scoping Memo, Appendix A at 35.

[118] Phase III Scoping Memo, Appendix A at 39.

[119] Phase III Scoping Memo, Appendix A at 44.

[120] We note that since the publication of the Staff Proposal, the gas IOUs provided updated projections. (*See* April 18, 2022 ALJ Ruling, Attachment 5.)

On Issue 7, Staff does not recommend any special allowance for agricultural customers and, as such, there is no cost-justification for such an allowance. Agricultural operations typically use gas primarily for greenhouse heating and grain drying, both of which can be done using electricity. Additionally, the small property price increase for new dual fuel construction that can be expected if Staff's recommendation is adopted is insufficiently high to merit a special allowance for any customer class.

In response to Pub. Util. Code Section 783(c), Commission staff requested the assistance of the California State Transportation Agency, California Department of Food and Agriculture, DCA, DRE,[121] and HCD in developing the recommendations in its Staff Proposal. Staff states that the feedback that was received was considered as part of Staff's recommendations. Additionally, Staff consulted with CARB, CEC, and the California Strategic Growth Council.[122]

Lastly, in response to Pub. Util. Code Section 783(d), Staff recommends an effective date of July 1, 2023, in compliance with the minimum time required.

7.2. Positions of Parties Supporting the Staff Proposal

Of the 14 parties commenting on the Staff Proposal's findings pursuant to Pub. Util. Code Section 783(b), 10 parties agree with the Staff Proposal's assessment of the seven issues and agree that eliminating gas line subsidies is within the Commission's legal purview. These parties are: Cal Advocates, CEJA, EDF, NRDC, Sierra Club, TURN, EBCE, MCE, SCP, and PCE. They make several points in support.

[121] Statute requires the CPUC to request the assistance of the Bureau of Real Estate, which has since become DRE.

[122] Phase III Scoping Memo, Appendix A at 2.

- The Staff Proposal sufficiently addresses the seven issues to make the requisite written findings;
- Statute does not specify the exact nature of the economic analysis required for the Commission to make the necessary findings pursuant to this section; and
- Statute does not require that new rules result in any particular findings (*e.g.*, favorable rate effects for customers) simply that they be documented.

7.3. Positions of Parties Opposing the Staff Proposal

Of the 14 parties commenting on the Staff Proposal's findings pursuant to Pub. Util. Code Section 783(b), four parties disagree with the Staff Proposal's assessment of the seven issues citing insufficient analysis. These parties are: SDG&E, SoCalGas, SBUA, and Clean Energy. They make several points in opposition.

- The record of this proceeding does support written findings on all seven issues;
- There has been no examination of the impacts on agriculture, mobile home parks, rural and urban customers, employment, or commercial and industrial buildings and development (Pub. Util. Code Section 783(b)(1));
- There has been no examination of the impacts to customer bills (Pub. Util. Code Section 783(b)(5));
- There has been no discussion of the impact on the development of RNG fueling stations or hydrogen production sites;
- The Staff Proposal does not address the equity concern between the customer applying for the extension now and future customers applying for line extensions at a later time (Pub. Util. Code Section 783(b)(2));
- The Staff Proposal failed to show that staff consulted any city, county or district before arriving at the conclusion that

eliminating gas line subsidies would not have any effect on redevelopment projects, funded or sponsored by cities, counties, or districts (Pub. Util. Code Section 783(b)(4)); and

- A study should be conducted on the economic effects on residential housing, rural customers and urban customers and must include low-income customers, disadvantaged communities, and the affordable housing sector.

7.4. Discussion

7.4.1. Compliance with Pub. Util. Code Section 783(b)

In this decision, the Commission makes findings on each of the seven issues included in Pub. Util. Code Section 783(b). We do so by relying on the best information we have in the record of this proceeding.

We agree with the Joint Parties and TURN that the statute requires the Commission to make findings on questions such as "the effect of requiring new or existing customers applying for an extension to an electrical or gas corporation to provide transmission or distribution facilities for other customers who will apply to receive line and service extensions in the future." However, it does not require that the Commission arrives at any particular conclusions (*e.g.*, favorable rate effects for customers) simply that the Commission arrives at written findings for all seven issues set out in Pub. Util. Code Section 783(b).[123]

Moreover, the statute does not require the Commission to conduct or commission a study, or specify the exact nature of the economic analysis required before the Commission can make the necessary findings.

The Commission has considered the potential impacts of these changes as further discussed below and concludes that eliminating gas line subsidies will

[123] Opening Comments of Joint Parties and TURN on Phase III Staff Proposal at 4.

have a net positive impact on all sectors mentioned in Pub. Util. Code Section 783(b) for all the reasons discussed in earlier sections of this decision. The record in this proceeding provides the Commission sufficient basis to eliminate gas line subsidies for all customer classes and we determine that this decision is in California's best interest and is consistent with other Commission decisions and legislative intent. More specifically, we make the following findings on each of the seven issues.

(1) The economic effect of the line and service extension terms and conditions upon agriculture, residential housing, mobile home parks, rural customers, urban customers, employment, and commercial and industrial building and development.

The Commission finds that the elimination of the gas line subsidies will have an overall net positive economic effect on these groups of customers. Gas rates paid by all gas customers will be reduced due to the reduction in gas line subsidies, estimated at an annual savings of $164 million.

The Commission agrees with the Joint Parties that in light of state climate and equity objectives and the importance of price signals to discourage the expansion of the gas system and reliance on gas appliances, the benefits of ending gas line extensions outweigh the economic impact upon those customers that may incur additional line or service extension costs by continuing to choose to build an extension connecting to the gas system.[124] We also note that there are programs that can help reduce any potential cost increase for these groups including the Manufactured and Mobile Homes Program, the Mobile Home Park Utility Conversion Program, and BUILD.

[124] Opening Brief of Joint Parties at 19-21.

In terms of employment, and as discussed in this decision, the Commission finds that there will likely be a net positive impact as we are likely to see an increase in demand for skilled workers in several economic sectors, including in the electric industry, construction jobs for energy efficiency improvements and building retrofits.

In terms of commercial and industrial building and development, and as discussed in this decision, the Commission finds that there will likely be an increase in the number of newly constructed all-electric buildings which will likely cost less than newly constructed dual fuel buildings.

Therefore, the Commission finds the "economic effect of gas line and service extension terms and conditions upon agricultural, residential housing, mobile home parks, rural customers, urban customers, employment, and commercial and industrial building and development" to be overall net positive.

(2) The effect of requiring new or existing customers applying for an extension to an electrical or gas corporation to provide transmission or distribution facilities for other customers who will apply to receive line and service extensions in the future.

The Commission agrees with the Staff Proposal[125] and the Joint Parties[126] that the elimination of gas line subsidies will have no effect on the current methods of providing transmission or distribution facilities for future customers.

We note that the elimination of gas line allowances may shift who pays which costs, but there is no change in the extent to which new or existing customers applying for an extension provide transmission or distribution facilities for future customers. We acknowledge that builders building dual fuel

[125] Phase III Scoping Memo, Appendix A at 34, 39, and 42-43.

[126] Opening Brief of Joint Parties at 21.

new construction away from a point of gas pipeline interconnection may pay more (*e.g.*, for additional trenching and infrastructure) than neighboring all-electric buildings (who do not need the additional trenching and gas infrastructure).

With respect to the magnitude of any such cost shift, no party presented credible evidence that it would be material and significantly disrupt necessary expansion of utility service. In light of the state's climate and equity objectives, the benefits of ending these subsidies to all gas customers outweigh any economic impact of developers that may receive lower subsidies due to neighboring developments opting for all-electric designs.

Therefore, we find that the actions in this decision do not have the "effect of requiring new or existing customers applying for a gas line extension to provide transmission and distribution facilities to other customers who receive line and service extension in the future." We find that the effect of this decision is limited to a shift in who pays which costs, this is not a material effect, and the negative effects on some customers, if any, are offset by the overall positive effects of reducing GHG emissions, improved quality of life and health for customers, hundreds of millions of dollars in total ratepayer savings annually, greater equity for low-income customers, and greater certainty for the builder and contractor community.

(3) The effect of requiring a new or existing customer applying for an extension to an electrical or gas corporation to be responsible for the distribution of, reinforcements of, relocations of, or additions to that gas or electrical corporation.

The Commission agrees with the Staff Proposal[127] and the Joint Parties[128] that the elimination of gas line subsidies for all new construction will result in increased costs to any customer choosing to extend a gas line, with costs depending on what infrastructure upgrades are necessary to extend gas service to the customer's building. However as mentioned above, the benefits of ending these subsidies to all gas customers outweigh any economic impact on developers seeking to extend gas lines. Therefore, we find the "effect of requiring a new or existing customer applying for an extension to an electrical or gas corporation to be responsible for the distribution of, reinforcements of, relocations of, or additions to that gas or electrical corporation" to be: the new or existing customer will be responsible for and must pay the costs that are caused by that customer's line extension (including reinforcements, relocations, or additions). These costs are outweighed by the economic and environmental effects along with increased equity of having the cost-causer pay the costs that are incurred.

(4) The economic effect of the terms and conditions upon projects, including redevelopment projects, funded or sponsored by cities, counties, or districts.

The Commission agrees with the Joint Parties that the elimination of gas line subsidies may increase project costs (including those that are funded or sponsored by cities, counties, or districts) that choose to connect to the gas system.[129] However, as discussed above, the rates paid by all gas customers (including cities, counties, or districts as utility customers themselves) will be

[127] Phase III Scoping Memo, Appendix A at 34, 39, and 43.

[128] Opening Brief of Joint Parties at 21.

[129] Opening Brief of Joint Parties at 21-22.

reduced due to the millions of dollars in ratepayer savings from eliminating the gas line subsidies. As such, we find that the "economic effect of the terms and conditions upon projects, including redevelopment projects, funded or sponsored by cities, counties, or districts" to be higher costs for those projects that choose to connect to the gas system but offset (at least in part) by reduced gas rates, and also offset by the environmental and social benefits of ending gas line subsidies.

(5) The effect of the line and service extension regulations, and any modifications to them, on existing ratepayers.

The Commission estimates that the elimination of gas line subsidies for all new construction (residential and non-residential) will lead to an annual savings of approximately $164 million per year, as noted above. In addition to the ratepayer savings, other benefits to the ratepayers include reduction in GHG emissions and improving public health outcomes due to improved air quality. Thus, we find that the "effect of the line and service extension regulations, and any modifications to them, on existing ratepayers" is a savings of at least $164 million per year, plus additional environmental, social and health benefits.

(6) The effect of the line and service extension regulations, and any modifications to them, on the consumption and conservation of energy.

The Commission agrees with the Staff Proposal that the elimination of gas line subsidies for all new construction will result in less gas extensions, less gas consumption, and more electricity consumption.[130] This will also result in fewer GHG emissions and less air pollution. That is because electric generation is now produced by a substantial amount of non-GHG polluting power plants, and the

[130] Phase III Scoping Memo, Appendix A at 35, 40, and 44.

percentage of non-GHG producing power plants will increase over time as California meets its 100 percent clean electricity mandate of SB 100. With regard to energy conservation, to the extent elimination of these subsidies results in more all-electric construction, we agree with the Joint Parties that energy conservation will likely increase due to the efficiency of electric appliances.[131] Thus, we find the "effect of the line and service extension regulations, and any modifications to them, on consumption and conservation of energy" to be a reduction in gas consumption, an increase in electricity consumption, lower GHG emissions, less air pollution, and more energy conservation, with overall environmental, social and health benefits.

(7) The extent to which there is cost-justification for a special line and service extension allowance for agriculture.

The Commission find no impacts here as the proposal to eliminate gas line subsidies for all customer classes does not include special allowances for agricultural loads. No credible evidence was presented on a cost-justification, if any, for a special line and service extension allowance for agriculture.

Therefore, we conclude on these seven issues that the record in the proceeding provides the Commission sufficient basis to end gas line subsidies for all customer classes as this change is in California's best interest and is consistent with other Commission decisions and legislative intent. As attested by numerous parties, there are significant economy-wide climate, health, affordability, and equity benefits to eliminating gas line subsidies, in addition to the significant ratepayer savings as supported by the data in the Staff Proposal and the IOUs' ED-DR responses. In light of California's climate objectives and the importance of market signals to discourage further reliance on gas, we find that the benefits

[131] Opening Brief of Joint Parties at 22.

of ending these subsidies as discussed thoroughly in this decision outweigh any potentially negative economic effects to any particular customer classes described within these seven issues.

7.4.2. Compliance with Pub. Util. Code Section 783(c)

In compliance with Pub. Util. Code Section 783(c), the Phase III Scoping Memo requested the assistance and input of the agencies and departments included in the statute. The Commission served the Phase III Scoping Memo on these agencies and invited them to participate in this proceeding (*e.g.,* submit comments and reply comments on the Staff Proposal).[132] Additionally, on November 17, 2021, the assigned Commissioner sent a follow up e-mail to the Executive Directors (or an equivalent position) of these agencies and departments and invited them to provide input on the Staff Proposal by December 20, 2021. No comments or responses from the state agencies and state departments were received.

7.4.3. Compliance with Pub. Util. Code Section 783(d)

Lastly, the revisions to the gas rules adopted in this decision are effective July 1, 2023, consistent with Pub. Util. Code Section 783(d).

8. Conclusion

Based on the record and the analysis above, we conclude that, consistent with the policy objectives of this rulemaking and the state's climate goals, the current gas line subsidies for all customer classes should be eliminated, effective July 1 of the year following today's order pursuant to Pub. Util. Code Section 783(c), on July 1, 2023. We also adopt an application process through which the

[132] Phase III Scoping Memo at 1 and 12.

IOUs may seek gas line subsidies for individual projects meeting the criteria set out in this decision. This decision meets the statutory requirements as set forth in Pub. Util. Code Section 783(b)-(d).

9. Comments on Proposed Decision

The proposed decision of Commissioner Clifford Rechtschaffen in this matter was mailed to the parties in accordance with Pub. Util. Section 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure (Rules). Comments were filed on August 30, 2022 by PG&E; SDG&E; SoCalGas; SCE; SWG; Clean Energy; the Joint Parties; SBUA; and The California Manufactures and Technology Association (CMTA). Reply comments were filed on September 6, 2022 by PG&E; SDG&E; SoCalGas; Clean Energy; the Joint Parties; SBUA; CMTA; and TURN.

Consistent with the Rules, we give no weight to comments that fail to focus on factual, legal, or technical errors (Rule 14.3(c)). In particular, we disregard comments that only reargue a party's position. In response to comments, we make the following revisions and clarifications:

- Corrections to non-substantive typographical errors and omissions.
- Clarification on the requirement of the IOUs, on behalf of the project applicant(s) seeking gas line subsidies, to demonstrate the factual basis for the project applicants' assertions, and confirm that the minimum requirements have been met based on the information provided by applicants.
- Removal of the requirement of the IOUs, on behalf of the project applicant(s) seeking gas line subsidies, to disclose all other incentives received by each project.

10. Assignment of Proceeding

Clifford Rechtschaffen is the assigned Commissioner and Scarlett Liang-Uejio and Ava Tran are the assigned ALJs in this proceeding.

Findings of Fact

1. The Commission initiated this proceeding to consider policy frameworks supporting decarbonization of buildings, including ongoing efforts to reduce GHG emissions associated with energy use in buildings.
2. The Phase I decision established the BUILD Program and the TECH Initiative pursuant to SB 1477.
3. The BUILD Program provides incentives to new residential housing projects that are all-electric and have no hookup to the gas distribution grid.
4. The TECH Initiative is a market transformation program providing incentives to advance the adoption of low-emission space and water hearing technologies.
5. The Phase II decision adopted: (a) guiding principles for the layering of incentives provided by multiple building decarbonization programs; (b) the WNDRR Program; (c) guidance on data sharing of customer and other information; and (d) requirements for the three large electric IOUs to conduct studies on bill impacts that result from fuel substitution for water heaters from natural gas to electric.
6. The Phase III Scoping Memo determined the issues to be resolved in Phase III including: (a) whether the Commission should modify or eliminate gas line extension allowances for some or all customer classes (residential and non-residential); (b) whether the Commission should modify or eliminate gas line extension refunds for some or all customer classes (residential and non-residential); and (c) whether the Commission should modify or eliminate

gas line extension discounts for some or all customer classes (residential and non-residential).

7. The Energy Division Staff Proposal recommends revisions to the current gas rules to eliminate the gas line subsidies for all customer classes effective July 1, 2023.

8. Of the parties commenting on eliminating the gas line subsidies for residential customers, there is wide support for the Staff Proposal among parties representing a substantial range of social, economic, and environmental interests.

9. Of the parties commenting on eliminating the gas line subsidies for non-residential customers, there is substantial support for the Staff Proposal among parties representing a wide range of interests.

10. The current gas line subsidies were established during a period when the state's energy needs and policy goals were very different from today's, and are no longer consistent with today's GHG emission reduction goals, the urgent need to reduce gas rates to ensure affordability, and the long term need to minimize future stranded investment.

11. The Commission adopted a uniform set of rules for gas utility line and service extensions beginning in 1915.

12. Under current rules, gas IOUs are not obligated to extend gas lines free of cost but must provide the opportunity for customers to be connected to the utility system at reasonable prices, terms, and conditions.

13. Current gas rules incentivize the installation of more gas appliances which perpetuate reliance on gas service and lock in all associated GHG emissions for the life of the appliance unless the appliance is retired early and replaced with an electric alternative.

14. The elimination of gas line subsides would make gas line and service extensions more expensive to the applicant for new gas service, and dual fuel new construction less desirable and financially riskier.

15. Eliminating gas line subsidies for all customer classes will result in significant ratepayer savings over the life of the gas line extensions.

16. Eliminating gas line subsidies for all customer classes is a logical step toward building decarbonization, consistent with state objectives and the Commission's policy frameworks. It will further the state's climate goals of reducing GHG emissions 40 percent by 2030 and achieving carbon neutrality by 2045 or sooner.

17. Eliminating gas line subsidies for all customer classes will improve overall quality of life (GHG emissions reductions, ratepayer savings, benefits to low income customers), and provide greater certainty for the builder community and the contractor community.

18. Eliminating gas line subsidies for all customer classes will result in a net positive impact on the workforce, as any potential decrease in demand for jobs within the gas industry is offset by the likely increase in demand for workers in several economic sectors, including in the electric industry, construction jobs for energy efficiency improvements and building retrofits.

19. Eliminating gas line subsidies for all customer classes does not remove customer choice as customers can continue to select their choice of fuel, with the difference being that existing and future gas customers will no longer have to subsidize investments in the gas infrastructure for new customers.

20. Eliminating gas line subsidies for all customer classes will not negatively impact energy reliability.

21. Eliminating gas line subsidies for all customer classes will have minimal impacts on property prices.

22. Eliminating gas line subsidies for all customer classes and supporting the hydrogen/RNG/CNG sector to reduce SLCPs can be successfully achieved together.

23. Large non-residential customers are the most significant contributors to GHG emissions.

24. There may be limited circumstances where gas line extensions for some non-residential projects can be beneficial, and gas line subsidies for these projects may be warranted.

25. Consideration of modifying or eliminating gas line subsidies is governed by Pub. Util. Code Section 783(b), which requires the Commission to make written findings on the following seven issues:

(a) The economic effect of the line and service extension terms and conditions upon agriculture, residential housing, mobile home parks, rural customers, urban customers, employment, and commercial and industrial building and development;

(b) The effect of requiring new or existing customers applying for an extension to an electrical or gas corporation to provide transmission or distribution facilities for other customers who will apply to receive line and service extensions in the future;

(c) The effect of requiring a new or existing customer applying for an extension to an electrical or gas corporation to be responsible for the distribution of, reinforcements of, relocations of, or additions to that gas or electrical corporation;

(d) The economic effect of the terms and conditions upon projects, including redevelopment projects, funded or sponsored by cities, counties, or districts;

(e) The effect of the line and service extension regulations, and any modifications to them, on existing ratepayers;

(f) The effect of the line and service extension regulations, and any modifications to them, on the consumption and conservation of energy; and

(g) The extent to which there is cost-justification for a special line and service extension allowance for agriculture.

26. Eliminating gas line subsidies will have the following impacts on the seven issues governed by Pub. Util. Code Section 783(b):

(a) The "economic effect of gas line and service extension terms and conditions upon agricultural, residential housing, mobile home parks, rural customers, urban customers, employment, and commercial and industrial building and development" will be overall net positive;

(b) The "effect of requiring new or existing customers applying for a gas line extension to provide transmission and distribution facilities to other customers who receive line and service extension in the future" will be limited to a shift in who pays which costs, will not be a material effect, and any negative effects on some customers, if any, will be offset by the overall positive effects of reducing GHG emissions, improved quality of life and health for customers, hundreds of millions of dollars in total ratepayer savings annually, greater equity for low-income customers, and greater certainty for the builder and contractor community;

(c) The "effect of requiring a new or existing customer applying for an extension to an electrical or gas corporation to be responsible for the distribution of, reinforcements of, relocations of, or additions to that gas or electrical corporation" will be that the new or existing customer will be responsible for and must pay the costs that are caused by that customer's line extension (including reinforcements, relocations, or additions). These costs will be outweighed by the economic and

environmental effects along with increased equity of having the cost-causer pay the costs that are incurred;

(d) The "economic effect of the terms and conditions upon projects, including redevelopment projects, funded or sponsored by cities, counties, or districts" will be higher costs for those projects that choose to connect to the gas system but will be offset (at least in part) by reduced gas rates, and also offset by the environmental and social benefits of ending gas line subsidies;

(e) The "effect of the line and service extension regulations, and any modifications to them, on existing ratepayers" will be savings of at least $164 million per year, plus additional environmental, social and health benefits;

(f) The "effect of the line and service extension regulations, and any modifications to them, on consumption and conservation of energy" will be a reduction in gas consumption, an increase in electricity consumption, lower GHG emissions, less air pollution, and more energy conservation, with overall environmental, social and health benefits; and

(g) There will be no "extent to which there is cost justification for a special line and service extension allowance for agriculture."

27. Pub. Util. Code Section 783(c) requires that:

The commission shall request the assistance of appropriate state agencies and departments in conducting any investigation or proceeding pursuant to subdivision (b), including, but not limited to, the Transportation Agency, the Department of Food and Agriculture, the Department of Consumer Affairs, the Bureau of Real Estate, and the Department of Housing and Community Development.

28. Pub. Util. Code Section 783(d) requires that:

Any new order or decision issued pursuant to an investigation or proceeding conducted pursuant to subdivision (b) shall become effective on July 1 of the year which follows the year

when the new order or decision is adopted by the commission, so as to ensure that the public has at least six months to consider the new order or decision.

29. During the course of this proceeding, the Commission provided notice and an opportunity to comment to those agencies identified in Pub. Util. Code Section 783(c).

Conclusions of Law

1. The Commission should eliminate gas line extension allowances, refunds, and discounts for all customer classes, with limited exceptions.

2. The Commission should allow limited exceptions to the elimination of gas line subsidies by permitting a utility to file an application for projects that meet specific criteria.

3. The application should be filed each year by July 1 and must demonstrate that each project meets the following criteria:

(a) The project shows a demonstrable reduction in GHG emissions;

(b) The project's gas line extension is consistent with California's climate goals, including those articulated in SB 32 (Pavley, 2016); and

(c) The project demonstrates that it has no feasible alternatives to the use of natural gas, including electrification.

4. The changes adopted in this decision to the gas rules comply with the statutory requirements of Pub. Util. Code Section 783(b)-(d).

5. The gas IOUs should each submit a Tier 2 AL to revise their gas line extension rules to eliminate gas line extension subsides in conformance with this decision. The revised rules should include the application process adopted in this decision allowing limited projects meeting the specific eligibility criteria set out in this decision to seek gas line extension allowances, refunds, and discounts.

O R D E R

IT IS ORDERED that:

1. Gas line extension allowances, the 10-year refundable payment option, and the 50 percent discount option in current utility gas line extension rules shall be eliminated, as provided below:

   (a) Gas Line Extension Allowances: All allowances set forth in utilities' Gas Rule Nos. 15 and 16 (for Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southwest Gas Corporation) (collectively, the three gas utilities) and Gas Rule Nos. 20 and 21 (for Southern California Gas Company (SoCalGas)) shall be removed effective July 1, 2023, subject to the application process described in Ordering Paragraph (OP) 2 of this decision;

   (b) 10-Year Refundable Payment Option: All refunds set forth in utilities' Gas Rule Nos. 15 and 16 (for the three gas utilities) and Gas Rule Nos. 20 and 21 (for SoCalGas) shall be removed effective July 1, 2023, subject to the application process described in OP 2 of this decision; and

   (c) 50 Percent Discount Option: All discounts set forth in utilities' Gas Rule Nos. 15 and 16 (for the three gas utilities) and Gas Rule Nos. 20 and 21 (for SoCalGas) shall be removed effective on July 1, 2023, subject to the application process described in OP 2 of this decision.

2. Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Gas Company and Southwest Gas Corporation (collectively, the gas utilities) may request approval from the California Public Utilities Commission (Commission) by an annual application for a gas line extension allowance, a 10-year refundable payment option, or a 50 percent discount payment option (gas line subsidy) for specific, unique non-residential projects meeting the criteria established in this decision. For those eligible projects, the gas utility shall file an application with the Commission, on behalf of the

applicant(s), for approval of a gas line subsidy, by July 1 of each year starting in 2023. In its annual filing, each investor-owned gas utility shall include an update to the non-residential gas line extension allowance calculations based on the current methodology (including all inputs used, *e.g.*, cost of service factor). The criteria are:

(a) The project shows a demonstrable reduction in greenhouse gas emissions;

(b) The project's gas line extension is consistent with California's climate goals, including those articulated in Senate Bill 32 (Pavley, 2016); and

(c) The project demonstrates that it has no feasible alternatives to the use of natural gas, including electrification.

3. For those specific, unique non-residential projects where a gas line extension allowance, the 10-year refundable payment option, and the 50 percent discount payment option may still be warranted, the gas utilities, on behalf of the project applicants, shall demonstrate the factual basis for the project applicants' assertions, and confirm that the minimum requirements have been met based on the information provided by applicants before filing the annual application with the California Public Utilities Commission.

4. Within 30 days of the date of this order, Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company, and Southwest Gas Corporation shall each submit a Tier 2 Advice Letter to revise tariffs for their respective gas line extension rules that eliminate gas line extension subsides in conformance with this decision. The revised tariffs shall include the application process adopted in this decision allowing limited projects meeting the specific eligibility criteria set out in this decision to seek gas line extension allowances, 10-year refunds, or 50 percent discounts payment option.

5. Rulemaking 19-01-011 remains open.

This order is effective today.

Dated September 15, 2022, at Clovis, California.

ALICE REYNOLDS
President
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
DARCIE L. HOUCK
JOHN REYNOLDS
Commissioners

APPENDIX A
Abbreviations, Acronyms, and Definitions

APPENDIX A

Abbreviations, Acronyms, and Definitions

A.	Application
ALJ	Administrative Law Judge
Allowances	Gas line extension allowances
Applicant	An entity (e.g., builder, developer, individual customer) who seeks connection to the utility system
AL	Advice Letter
April 18, 2022 ALJ Ruling	An ALJ ruling receiving into the evidentiary record the gas utilities' responses to the ED-DR
BUILD Program	Building Initiative for Low Emissions Development Program.
Cal Advocates	The Public Advocates Office of the Commission
CARB	California Air Resources Board
CCUE	Coalition of California Utility Employees
Commission	California Public Utilities Commission
CEC	California Energy Commission
CEJA	California Environmental Justice Alliance
CNG	Compressed Natural Gas
DCA	California Department of Consumer Affairs
DRE	California Department of Real Estate
EBCE	East Bay Community Energy
ED-DR	A March 14, 2022, Energy Division data request (ED-DR) sent to PG&E, SoCalGas, SDG&E and SWG; directed the gas utilities to verify and serve their responses to the ED-DR on all parties
EDF	Environmental Defense Fund
FY	Fiscal Year
GHG	Greenhouse Gas
Gas Line Subsidies	Gas line extension allowance, 10-year refundable payment option, or 50 percent discount payment option
Gas Rules	Gas line extension rules:

	Gas Rules 15-16 for PG&E (https://www.pge.com/tariffs/assets/pdf/tariffbook/GAS_RULES_15.pdf, https://www.pge.com/tariffs/assets/pdf/tariffbook/GAS_RULES_16.pdf), SDG&E (https://tariff.sdge.com/tm2/pdf/GAS_GAS-RULES_GRULE15.pdf, https://tariff.sdge.com/tm2/pdf/GAS_GAS-RULES_GRULE16.pdf), and SWG (https://www.swgas.com/1409184638489/rule15.pdf, https://www.swgas.com/1409184638517/RULE_16--GRC_Eff-April-1-2021.pdf), and Gas Rules 20-21 for SoCalGas (https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/20.pdf, https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/21.pdf). Rule 15/20 pertains to gas distribution main extensions and Rule 16/21 pertains to gas service line extensions.
HCD	California Department of Housing and Community Development
IOUs	Investor-owned utilities
Joint CCAs	EBCE, Marin Clean Energy, Peninsula Clean Energy, and Sonoma Clean Power
Joint IOUs	Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Gas Company
Joint Parties	California Environmental Justice Alliance, Environmental Defense Fund, Natural Resources Defense Council, and Sierra Club
MCE	Marin Clean Energy
NRDC	Natural Resources Defense Council
OIR	Order Instituting Rulemaking
OP	Ordering Paragraph
PCE	Peninsula Clean Energy
PG&E	Pacific Gas and Electric Company
Phase I Decision	D.20-03-027 established the two building decarbonization pilot programs required by SB 1477: the BUILD Program and the TECH Initiative.
Phase II Decision	D.21-11-002 (1) adopted guiding principles for the layering of incentives when multiple programs fund the same equipment; (2) established the WNDRR Program to provide financial incentives to help victims of wildfires and natural disasters rebuild all-electric properties; (3) provided guidance on data sharing; and (4) directed California's three large electric investor-owned utilities (IOUs)

Phase III Scoping Memo	An Amended Scoping Memo and Ruling setting forth the issues to be considered in Phase III of this proceeding issued on November 16, 2021.
Pub. Util. Code	Public Utilities Code
R.	Rulemaking
RNG	Renewable Natural Gas
SCE	Southern California Edison Company
SCP	Sonoma Clean Power
SB	Senate Bill
SBUA	Small Business Utility Advocates
SDG&E	San Diego Gas & Electric Company
SLCPs	Short Lived Climate Pollutants
SoCalGas	Southern California Gas Company
Staff Proposal	Staff Proposal on Phase III issues (Appendix A, Phase III Scoping Memo).
SWG	Southwest Gas Corporation
TECH Initiative	Technology and Equipment for Clean Heating Initiative.
TURN	The Utility Reform Network
WNDRR Program	Wildfire and Natural Disaster Resiliency Rebuild Program

(END OF APPENDIX A)