

July 1, 2020

**POSTED ELECTRONICALLY TO
RULEMAKING 19-01-011**

California Public Utilities Commission
Rulemaking (R.) 19-01-011
505 Van Ness Ave
San Francisco, CA 941022

Re: R.19-01-011: Pacific Gas and Electric Company Comments on the Building
Decarbonization Data Workshop

PG&E appreciates the opportunity to provide informal comments on the Building Decarbonization OIR Data Workshop held on June 17, 2020. PG&E looks forward to further discussing the role of data in building decarbonization programs and policies in future venues; at this time, the comments below aim to clarify a few points raised during the event.

Gas asset depreciation and remaining book value

PG&E commends the Environmental Defense Fund (EDF) for drawing attention to the need for a strategy to ensure an equitable transition as buildings shift away from current levels of natural gas use. As EDF noted, strategically-targeted, cost-effective electrification projects could play a role in reducing gas system costs that must be recovered from all customers through rates. PG&E would like to clarify a few key points to inform the discussion about aligning electrification projects with opportunities to reduce gas system investments:

- There is potential to decrease gas system costs when targeted electrification eliminates or reduces required gas work, and the electrification cost is lower than the planned gas project.
 - Gas system cost reductions are achieved by avoiding future spend that would otherwise occur.
- One way to potentially avoid future spend is to retire a pipeline that is scheduled to be replaced, if the option is feasible and cost-effective. Distribution pipeline replacement is driven by risk profile, which is determined by several factors and assessed regularly, and is not automatically replaced at routine intervals.
 - Distribution pipeline age alone is not a strong predictor of when, if at all, that pipeline will be replaced.
- The remaining book value of an asset would not be a good indicator of whether an asset might be scheduled for replacement. Hence, remaining book value is not a useful indicator of locations where targeted electrification might have the potential to reduce future expenditures.
 - Costs already incurred are sunk and will not be reduced with targeted electrification.
- Gas infrastructure does not depreciate on an asset-by-asset basis, and so individual assets do not have their own depreciation schedules. When capital costs are incurred, they are added to the total costs that must be recovered from customers.

- Retirement of specific assets does not change the depreciation schedule of the gas system ratebase.

PG&E shares EDF's interest in pursuing electrification projects that avoid or reduce gas system investments. PG&E appreciates EDF's leadership in promoting approaches to electrification that maximize benefits to individual customers and all ratepayers. However, as outlined above, there is no cost savings potential associated with targeting electrification around the remaining book value of an individual asset.

PG&E has identified and pursued opportunities to avoid planned gas projects and, in turn, upcoming investments that would otherwise be recovered from customers. PG&E has found that the largest and most consistent barriers to achieving gas cost avoidance with targeted electrification are challenges that require innovative policy, regulatory, and programmatic solutions. PG&E is eager to work with EDF and other stakeholders to advance this critical work.

New service agreements

During its presentation on the gas system expansion process, PG&E described the permanent nature of gas service facilities and the Utility's obligation to continue maintaining infrastructure. Upon transitioning the presentation to the topic of customer requests for termination, PG&E very briefly reviewed the 10-year term period that a customer enters into upon execution of a new gas extension agreement ("Agreement"). The topic of an Agreement prompted some discussion, and so PG&E offers the following additional explanation.

A workshop comment asked for confirmation on the source of the service Agreement:

- Distribution and Service extension agreements used by PG&E are CPUC-approved and filed forms¹
- Agreement provisions², including termination³ of the Agreement and the 10-year term⁴, apply to all executed service extension agreements, were established by the CPUC, cannot be modified outside of a CPUC process or without CPUC approval, and are standard across all investor-owned gas utilities in California.
- The Agreement terms are intended to:
 - Reflect the long-lived nature of gas assets and the high cost to install them. It should be noted that although the contract period is ten years, costs are recouped over several decades.
 - Mitigate the cost shift to remaining ratepayers that occurs when a customer opts out of contributing to the repayment of investments made on their behalf. Gas service is only installed, and therefore costs are incurred, in response to customer request.
 - Create consistent, predictable service terms state-wide rather than leaving it to the discretion of an individual utility.

Stakeholders briefly discussed the potential value of a map or data set containing properties where service was installed less than ten years ago. PG&E currently has data on gas service installation year and can view this data for a selected service facility. However, there are no existing data sets that can be easily

¹ Form Numbers 79-1018 – "Residential Rule 16 Electric/Gas Single Service Extensions", 79-1169 – "Gas and Electric Extension Agreement", 62-0980 – "Distribution Service and Extension Agreement Declarations", and 79-1004 – "Distribution and Service Extension Agreement, Exhibit A, Cost Summary"

² Form Number 62-0982 – "Distribution and Service Extension Agreement – Provisions"

³ Form Number 62-0982 – "Distribution and Service Extension Agreement – Provisions", §20

⁴ Form Number 62-0982 – "Distribution and Service Extension Agreement – Provisions", §25

queried by geographic location or translated to graphical maps. PG&E cautions that such a data set may be challenging to produce but suggests that considering the year of installation could still be incorporated manually into an assessment of a potential electrification candidate area. In a location under consideration, a stakeholder could also look up the year the selected building or buildings were constructed or underwent significant renovations and conclude if gas service facilities were installed less than 10 years ago without data from PG&E.

PG&E experience pursuing alternatives to gas system investment

The second half of PG&E's presentation focused on a few of the opportunities and challenges involved in pursuing an alternative to gas system investment. In response to a question, PG&E confirmed that the findings shared were drawn from numerous experiences in which PG&E sought to eliminate the need for a gas project by offering to compensate impacted customers for their agreement to terminate gas service at their property.

PG&E looks forward to drawing on lessons learned from real electrification projects—both successful and unsuccessful—to inform discussions with the Commission and stakeholders. Over the past several years, PG&E has explored alternatives to approximately 200 gas projects over the past 12-18 months. In about a quarter of these situations, what had appeared to be a promising candidate was not viable upon further analysis. This was most often due to barriers mentioned by PG&E in the workshop, such as a high number of impacted customers (and therefore low likelihood of consensus) and electrification costs that exceeded the gas project budget. PG&E approached customers to offer an alternative to planned gas work on approximately 130 occasions. PG&E offers must be negotiated individually with each impacted customer but take into account the cost of converting the building so that it no longer uses natural gas (informed by multiple independent estimates for the work). Still, customers may, and frequently do, refuse. Of those approximately 130 attempts to avoid a gas project by converting customers' buildings, 60 customers declined to give up gas service and the gas projects that PG&E sought to avoid had to go forward.

For PG&E to consider an alternative to a planned gas investment, engineering analysis and project assessment must show that:

- the electrification aligns with hydraulic needs of the system;
- the estimated cost of electrification is less than the cost of the planned gas project;
- electrifying customers meets their needs and reduces risk to the same or greater extent than the gas project;
- few enough customers are impacted that there is some likelihood all will accept electrification offers; and
- there are expense funds available that have not been earmarked through the rate case for another purpose.

Once the above assessment is completed and PG&E has determined that terminating gas service at one or more properties is a feasible, cost-effective option, PG&E must:

- review usage and other information about the customer(s) involved to confirm electrification appears feasible, and
- deploy a customer specialist to reach out to each individual customer involved to introduce the offer, work with the customer(s) to understand their needs and options and negotiate a payment.

At this point, it is entirely up to the customer(s) involved whether the gas project will be avoided or proceed. PG&E's Gas Operations team is increasingly incorporating identification of non-traditional options into business-as-usual gas system planning. PG&E engineers are unable to make plans that rely

on completing an alternative option, however, because the viability of the non-gas alternative is uncertain until and unless all impacted customers voluntarily terminate gas service. PG&E has found that it can identify high-potential locations for targeted electrification, but is unable to implement the electrification approach in all of them.

Conclusion

PG&E is eager to work with the Commission and stakeholders to identify and address barriers to strategic building electrification, and to develop creative solutions that maximize the environmental and economic return on electrification investments, while ensuring equity and affordability for all customers.