Gas Proceeding Advocacy Plan

Building Decarbonization Coalition

Guiding Principles and Vision for the Future

The year is 2045, and California is a carbon neutral economy. The state's buildings are powered by clean electricity, while the gas system powers only a few, difficult-to-decarbonize industries. Former gas distribution workers have been provided early retirement benefits or retrained to take on other utility jobs, and some are even at work safely decommissioning gas pipelines. All Californians share in the benefits of the energy transition: cleaner air, safer homes, and action towards the climate crisis.

We achieved this future by meeting critical milestones. By 2030, California reached a critical mass of electrification and market transformation, and all low-income Californians had transitioned from gas to electric appliances. After 2022, no new customers connected to the gas system. And in 2021, the Long Term Gas Planning Proceeding (Proceeding) at the California Public Utilities Commission (CPUC) laid the groundwork for a ramping up of electrification, set retirement dates for gas infrastructure, and halted new, unnecessary investments into the gas system. As we head into 2021, the CPUC has the opportunity to set this future into motion by adopting bold policies that advance four main goals.

1. Halt Expansion of the Gas System

New investments into the gas system run contrary to California's climate goals and will only exacerbate the financial challenges of the gas transition. The CPUC should aim to halt expansion of the gas system while transitioning gas customers off the current system in a safe and cost-effective way.

Recommendations

Adopt strict criteria for approving new gas investments, starting upon the conclusion of the Proceeding. For a new gas investment to be considered "prudent," a utility must demonstrate to the CPUC that the investment aligns with California's climate policies and is more cost-effective than any non-pipeline alternative (such as temporary supply, demand response, energy efficiency, and electrification). Cost recovery should not be allowed for investments deemed imprudent. Alternatively, the passage of SB 1477 (2018) may have already established such a "bright line" for including new gas investments in the rate base.

Eliminate the gas line extension allowance (within the legal bounds of Public Utilities Code §783) upon the conclusion of the Proceeding. This measure could save more than $150 million in new utility

investments each year, and the savings could be used to increase the electric line extension allowance or fund electrification programs. (Alternatively, AB 33, if passed, would end the gas line extension allowance beginning in 2022).

Establish pilot programs for geographically targeted electrification in areas where pipes are depreciated and/or due for repairs or replacement, such that a section of gas infrastructure could be decommissioned. The CPUC likely has the authority to replace gas service with comparable electric service at a reasonable cost to the customer—however, obligation to serve reform at the legislature could assuage any legal concerns. Geographically targeted electrification could increase gas rates for low- and middle-income customers that remain on the system and must be paired with comprehensive, progressive rate reform and other measures that offset any adverse effects. Ideally, geographically targeted electrification would include communities most vulnerable to rate increases.

Needed Legislative Action

The legislature should clarify utilities' obligation to serve by granting the CPUC broad authority to 1) manage the transition, 2) reduce gas service territories, or 3) approve substitution of electric service for gas service. Alternatively, clarify that utilities' obligation to serve refers to end-uses, regardless of the type of energy that supplies them.

2. Equitably Finance Remaining Gas Costs

California's gas system is currently valued between $15 and $20 billion and continuing to grow. As gas rates increase and more customers leave the system, those least able to transition to electric appliances could face gas prices as high as $19 per therm ($2018) by 2050 (A 1059% increase from PG&E's current residential gas rate). The CPUC must work with the communities that will be most affected by the transition to develop a plan for equitably financing existing gas assets while maintaining affordable utility rates for low- and middle-income Californians.

Recommendations

Work with utilities to collect key planning information about the gas system, identifying assets that are likely to be stranded, their costs, and the decommissioning cost of the system as a whole. Provide this information to agencies and communities to help guide infrastructure investment and divestment.

Direct utilities to develop accelerated depreciation schedules for gas assets that are likely to be stranded, including committed decommissioning for any new, necessary gas investments. Depreciation schedules must end by 2045 at latest and be faster-than-linear, front-loading cost recovery to align with a time when more customers are connected to the gas system. The objective is to prevent expensive stranded assets further into the future, which could result in a greater increase

in costs overall. This will raise gas rates in the near term, and must be combined with strategies that ensure affordability for low- and middle- income customers.

Work with low-income residential communities and organizations to identify a comprehensive bill protection program for CARE customers (and for customers that don't currently qualify for CARE who will also be impacted by the gas transition) that mitigates any unanticipated gas or electric bill increases related to the transition. A preliminary measure could be to increase the gas CARE rate reduction from 20 percent to 30-35 percent (the current electric CARE rate).

Reduce the cost of maintaining safe gas service by directing utilities to explore options such as derating pipes to operate at lower pressures as gas throughput declines or testing pipes to avoid full replacements. To incentivize utilities to make these short-term safety investments, the CPUC may need to allow a rate of return on O&M investments (a modification to current cost recovery practices). The CPUC should not find any pipe replacement investments prudent until the utility has conducted testing.

Initiate a process and evaluate options for Comprehensive Rate Reform that enables the full realization of the benefits and more aggressive adoption of electrification while protecting low- and moderate- income customers from rate increases. The new rate structure should 1) shift costs from residential and small commercial customers to larger commercial customers, 2) be progressive, and 3) eventually shift costs from primary gas customers to large industrial customers and gas generators. Ideas should come from and work to address priorities from community-based organizations; some options to consider include:

1) Switching from a peak-day cost allocation to a usage-based cost allocation by 2023. Combined with accelerated depreciation and reduced gas system expenditures, this could reduce the projected 2050 residential gas rate from $19 to $4.49 ($2018) per therm.

2) Adopting a minimum bill or fixed charge. This could be applied to only high-income customers who use gas infrequently (such as in vacation homes) or only for "luxury" uses (such as for gas cooking or fireplace inserts) by 2023. Alternatively, it could be a fixed charge applied based on income, with reimbursements based on Earned Income Tax Credit, could be considered—a model currently used by the Affordable Care Act for low-income household subsidies.

3) Shifting costs from utilities' primary customers to large industrial customers and gas generators by modifying cost allocation for gas transmission pipelines by 2030. This should be done while ensuring there isn't an increase in electricity rates, such that ratepayers are paying less as gas generators are being used less, or related emissions leakage issues.

4) Support for whole house retrofits, targeted load shifting and/or demand-side management deployment in low-income communities could enable near-term savings for those still on the gas system, as well as savings post-electrification.

Needed Legislative Action

Securitize both the accelerated portions of existing gas assets and the assets' decommissioning costs. This would reduce costs for ratepayers while guaranteeing capital cost recovery to utilities. Securitization has recently been used to finance stranded coal assets in New Mexico, Wisconsin, and other jurisdictions; and the California Legislature authorized securitization to recover stranded costs during the transition from deregulation in 1997.

Allocate additional funding as needed for paying off the gas system. Work with the legislature to direct public funds, such as cap-and-trade funds, towards further bill protections. This could include drawing out best practices from the San Joaquin Valley Tenant Protection Program, which include automatically barring eviction or rent increases for the 5 years after an electrification retrofit has occurred; potential creation of and coordination with an independent non-profit tasked with evaluating and addressing split incentive issues; and establishing a set of Common Community Elements that ensures local workforce development and hiring practices, bulk purchasing options, and available contingency funds to ensure all relevant customers see concrete bill *savings* for a period of time; and more.

3. Enable Low-Income and Disadvantaged Communities to Transition

California must commit to a plan that ensures low-income and disadvantaged customers receive the full benefits of the transition away from gas, which may mean providing support for those communities to depart gas as early as possible—before gas rates increase, impacting vulnerable households. To ensure the transition serves these communities' needs, advocacy efforts should work to amplify and promote recommendations and priorities of these communities and those that advocate on their behalf.

Recommendations

Center and support low-income and disadvantaged community leaders and organizations in the gas planning process by providing resources to support outreach to, education, and participation by these communities, to ensure their priorities provide the basis for any efforts from the beginning. Engage community leaders and organizations throughout the proceeding, supporting further workshops for electrification projects in low-income and disadvantaged communities that include tenant protections and build on the San Joaquin Valley model of community engagement. The CPUC should be prepared to provide additional resources necessary to effectively reach and engage low-income and disadvantaged communities with electrification and other programs due to significant barriers that these households face.

Secure long-term (and ideally expanded) funding for the Low-Income Weatherization Program as a vehicle to ensure that low income, deed and non-deed restricted multifamily homes can switch to all-electric in a beneficial way. As a Cap-and-Trade funded program, LIWP currently lacks the stable, long-term funding to reach its full potential.

Assist with the upfront capital costs of electrification by providing low-income customers with direct install incentives, grants, and on-bill payment options. Offer customer-facing programs in a "one-stop shop" that allows customers to pair electric technologies with energy efficiency, solar installations, and other measures that offset potential electric bill increases. Technical assistance, like as LIWP provides, can ensure households can take full advantage of all applicable programs.

Effectively communicate electrification opportunities to low-income and disadvantaged community members through relationships with community-based organizations, and annually assess uptake of electrification programs. Modify program approaches as needed, adapting to community priorities and needs in their efforts to switch all low-income homeowners to electric appliances by 2030.

Ensure adequate and long-term funding and support for grants, tax incentives, and financing solutions for affordable housing developers to build all-electric. For affordable housing developers and stakeholders, ensure that programs that support all-electric affordable multifamily housing are fully funded, and are complementary to one another. These include LIWP, the Solar on Multifamily Affordable Housing (SOMAH) program, and the California Energy Commission BUILD and TECH. On-going engagement around the Low-Income Housing Tax Credits (LIHTC), allocated by the Tax Credit Allocation Committee (TCAC) with corresponding bonds authorized through the CA Debt Limit Allocation Committee (CDLAC), should include support for continued funding and maintaining sustainability or carbon metrics in the qualification criteria.

Needed Legislative Action

Align landlord and renter incentives by passing legislation that creates a process (and potentially an independent entity) to evaluate and align split incentive challenges. A set of solutions and draft enrollment, implementation, and evaluation processes can be evaluated through formal stakeholder workshops, with models to be considered that include the federal Weatherization Assistance Program (WAP) and SOMAH property owner-tenant agreement. The end goal would be electrification program incentive structures that benefit both renters and owners/developers, that are clear and can be paired with other incentive programs, and that increase uptake within the developer community. *[Note: At the time of drafting, the CA Housing Partnership and Greenlining Institute are preparing to issue recommendations from a series of convenings of affordable housing developers on electrification. This document currently does not incorporate those recommendations and will be updated once they are available.]*

Allocate additional funding as needed for projects that assist low-income customers through the transition, such as electrification pilot projects, incentives and rebates. The CPUC should work with utilities and communities to determine the lowest-cost path to transitioning low-income customers from gas to electric service by 2030, and work with the Legislature to secure the amount needed to implement this transition without increasing low-income ratepayers' energy spending.

Address the root cause of energy insecurity—economic insecurity—through stimulus checks, a universal basic income, or an increase in the minimum wage. People working long hours or living paycheck-to-paycheck may not have the time or bandwidth to consider switching from gas-to-electric appliances, even when incentives exist. The CPUC should strongly urge the Legislature to address low-income Californians' immediate concerns, and grant them greater autonomy through the energy transition, by adopting bold policies that directly alleviate economic insecurity.

4. Ensure a Just Transition for the Gas Workforce

Finally, the CPUC must work with labor unions to develop a plan for supporting the over 10,000 gas distribution workers in California through the energy transition. While utilities should defer to labor unions, who are best equipped to address their members' diverse needs, for specific plans, the CPUC should be prepared to fund ambitious policies such as the following (based on the Diablo Canyon just transition plan, policies developed by Gridworks in consultation with IBEW Local 1245, the UCLA Luskin Center and Inclusive Economics Workforce Needs and Recommendations Report, and the National Economic Transition Plan for coal communities put forth by local, tribal and labor leaders).

Recommendations

Work with unions and utilities to establish workforce needs and retirement dates for each segment of the gas distribution system, with the assumption all primary customers will transition off gas by 2045, and at least 80 percent by 2035. Establishing pipeline retirement dates will be critical to unions' just transition planning and will additionally provide certainty to workers, utility customers, and companies. As in the Diablo Canyon just transition planning, labor unions must have a say in shaping this timeline.

Work with unions and utilities to establish a plan for decommissioning gas infrastructure, including a determination on whether to depressurize, seal, and cap pipelines that remain in the ground (less expensive) or remove the pipelines entirely (more expensive). Decommissioning work should begin in 2030, with 10 percent of the system decommissioned by 2045, 50 percent by 2060, and a minimum of 70 percent by 2075. Establishing dates is critical to planning a just transition for gas distribution workers who chose to stay on and decommission the system—work which might otherwise go to outside contractors but should be prioritized for current gas workers.

Work with unions and utilities to develop a cost estimate and plan for funding a just transition. Funding should come from a combination of 1) collecting no more than 15 cents per month on electric and gas customer bills over an extended collection period (2025-2055), 2) working with the Legislature to secure funding from cap-and-trade revenues, and 3) requiring gas utility shareholders to fully fund any programs that are implemented after the deadlines agreed upon by labor unions and utilities. As a cost reference, the Diablo Canyon just transition plan developed by IBEW Local 1245 is estimated to cost PG&E customers no more than 18 cents per month over an 8-year collection period.

Direct utilities to implement unions' just transition plans, recognizing that unions are best equipped to address their members' diverse needs. The CPUC and utilities should be prepared to adopt a bold plan for those who will need to continue working on the remaining gas system; those who will transition out entirely from gas pipeline work; as well as the gas plumbers and pipefitters who will need to find a new trade. This should include:

1) **A just transition for plumbers and pipefitters must also be developed early on** that ensures replacement work, training and retraining, wage protections, or early retirement, as much of this line of work will be entirely eliminated. It must include wage protection and training for early and mid-career workers, and early retirement options for late-career workers.
2) **Scoping, recruiting and retaining the needed remaining gas utility workforce.** Using existing studies and additional analysis, the size of the workforce needed to safely operate the system should be determined. Severance packages, contract extensions, and moving stipends (based on analysis of future pipeline locations) should be provided to the remaining workforce for as long as they will be needed. Knowing that these jobs will have a set duration, dual-commodity utilities should plan in advance to have guaranteed positions and advanced training for these workers to eventually transition to the electrical side of the business.
3) **Creating a just transition plan for the remaining displaced workers.** Dual-commodity utilities should transfer gas employees to the electrical side of the business, and provide training/retraining, job guarantees, preferential bidding or transfer, and continuation of benefits. For gas-only utilities, these workers will need a combination of training/retraining as well as wage protection and early retirement buyout programs. For single-commodity electric and water utilities, the Commission should consider cost recovery for hiring displaced gas workers from gas-only entities.