December 20, 2021

Commissioner Rechtschaffen
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Transmitted Electronically

RE: Order Instituting Rulemaking Regarding Building Decarbonization (R. 19-01-011), Amended Scoping Memo and Ruling (Phase III)

On behalf of a coalition of California businesses and industry, we appreciate the opportunity to provide comment on the Order Instituting Rulemaking Regarding Building Decarbonization (R.

19-01-011), Amended Scoping Memo and Ruling (Phase III). The R.19-01-011 Phase III Staff Proposal (Staff Proposal) intends to address building decarbonization by eliminating, or significantly altering, gas distribution main and service line extension allowances, refunds, and discounts. From the perspective of California's businesses and industries, the Staff Proposal is woefully inadequate and absent any discussion of the broader economic impacts such a policy would have on California's economy, business and industrial sectors, utility rates, and future energy supplies. This coalition objects to the Staff Proposal and the recommendations provided therein for the reasons discussed below.

Proposal Serves as a Barrier for Future Economic Growth and Investment

Our coalition represents the economic engine of the world's fifth largest economy. We consider ourselves partners in addressing California's sustainability challenges and climate goals. However, the Staff Proposal is fundamentally incorrect in its foundational argument that the gas line extension, refund and allowance programs are barriers and impediments designed to further conflict with California's emission reduction goals. These rules exist for several reasons, one of which is a mechanism to stimulate economic investment in California businesses and industry by helping offset the costs of connections and installations allowing for greater economic potential. It is a mechanism that facilitates economic development, economic expansion, and job creation for the state and local communities.

Collectively, our coalition partners have led the global community in the early adoption of greenhouse gas (GHG) reducing technologies and other innovations beyond building decarbonization. Business and industry have made significant capital investments in cleaner transportation, achieved higher level of energy efficiencies in equipment and infrastructure but the differences that exist between decarbonizing residential homes and commercial or industrial properties are increasingly more challenging.

California's restaurants, for example, have traditionally utilized natural gas for the practical aspects of this tool in their menu development, preparation of a wide variety of cuisines and dishes, coffee roasting, and for the quality of the heat for various culinary purposes. After all, Californians are not lining up in droves for a chef who's excited about "firing" up an electric wok for their customers. The Staff Proposal adds a further layer of financial unpredictability and will ultimately result in a smaller inventory of commercial spaces with natural gas connections, higher rents or leases on existing natural gas connected properties due to limited inventory, and increased investment costs in all-electric appliances. An all-electric kitchen may work for the average California family cooking in their home, but this is not a practical reality for a commercial restaurant serving hundreds of meals and customers on a daily basis.

As another example, California's premier biotech industry relies on natural gas for critical research and development; you cannot light a Bunsen burner with electricity. This proposal will limit access or increase the cost of essential infrastructure for the development and production of new lifesaving medicines and technologies, stifling the innovation that defines the California economy. Similarly, the proposal also threatens to strand several thousand renewable natural gas (RNG)-powered heavy-duty trucks along California's transportation corridor that rely on an affordable, sustainable, continuous fueling network. These medium and heavy-duty trucks provide essential goods and deliver vital emergency services to many local jurisdictions. They represent a valuable, clean transportation alternative that supports the existing goods movement sector while it transitions to heavy-duty electric trucks. These vehicles now become stranded capital assets for California businesses and industries that made investments to minimize emissions.

Proposal Exposes Ratepayers to Increased Utility Costs
The Staff Proposal does not consider the reason line extension allowances were initially put into place decades ago. The builder pays this money to the utility company before construction starts to ensure that the ratepayers will remain whole if the project is not completed. This way, the ratepayers will not be on the hook for stranded utility assets if a project stalls. Once the project is completed and the building becomes occupied, the utility company's revenue stream begins. Once that revenue stream stays in place (for a considerable time), the utility company will pay back the refundable portion of the allowance to the builder. However, the proposed decision would have the utility company keep this money well after the revenue stream has been established.

Decarbonization will be difficult to achieve and should not be supported via punitive measures like the Staff Proposal. It will directly impact housing costs by adding several thousand dollars to the price of a new home. Since this will result in a financial loss to the builder, that loss will be passed on to the consumer (e.g., the homebuyers and new or expanding businesses and industries). Essentially, this proposal redirects money that should have been returned to California's building industries and instead allows the state's natural gas utilities to collect the full amount on the cost of a natural gas connection plus what is established in the utility's natural gas rates. In the end, ratepayers will see increased costs.

Proposal Conflicts with Statutory Obligations
The Staff Proposal provides recommendations without any indication of how the rulemaking may conflict with existing California law, specifically California Public Utilities Code §451. As the Commission is aware, PUC §451 provides that energy utilities' have "an obligation to serve" their customers and further requires that a utility "furnish and maintain […] adequate, efficient, just, and reasonable service" for all customers within their operational territory. The Staff Proposal fails to provide a substantive examination of the legal consequences of their recommendations and fosters greater legal ambiguity should the proposal be advanced. This coalition would appreciate any further legal clarification as to the statutory challenges presented, and all supporting documentation to that affect. We do not believe that existing California law provides the legal certainty that is implicit in the Staff Proposal recommendations.

While we anticipate CPUC staff dismissing the argument and claiming that the proposal in-and-of-itself is not a ban on natural gas service, just the mechanisms that further encourage utilization, the Staff Proposal does not address affordability moving forward. Increased system costs will impact both electricity and natural gas customers if there is a large-scale shift in usage. On the electricity side, significant capacity, transmission and distribution infrastructure will be required to deliver an increased amount of energy to meet new demands (e.g., heating and cooking). On the natural gas side, there will be fewer customers left to pay the costs associated to maintaining a safe and reliable natural gas system. Those who remain connected to natural gas are more likely to find it impossible to decarbonize, like businesses and industries, along with those who cannot afford new electric appliances or the cost increases to natural gas service.

California ratepayers will ultimately pay for this proposal. California's utilities must deliver natural gas to new customers in their service territory and the statutory requirement directly conflicts with the goal of decarbonization.

Proposal Adds to the State's Unreliable Supply of Energy
While the CPUC has taken steps to address the potential electric capacity shortfalls for 2022 and 2023, it remains unclear if these decisions will ensure that California will have adequate

energy supplies. California has yet to address the very real challenges of permitting and interconnections that may further prevent certain projects from closing the potential 4,350 megawatts (MW) shortfall for next summer.[1] Building decarbonization is one of many electrification proposals across multiple state entities that will add significant and new electrical load to California's grid that will no longer be seasonally driven.

As an example of the electricity supply challenges that lay ahead, earlier this year the California Energy Commission released its *Assembly Bill (AB) 2127 Electric Vehicle Charging Infrastructure Assessment*. Among other findings, the assessment concluded that in 2030, electricity consumption from passenger EV charging could reach about 5,500 MW around midnight and 4,600 MW around 10 a.m. on a typical weekday, increasing electricity demand by up to 20–25 percent at those times.[2]

Absent a massive effort to expand California energy supplies, along with the distribution and transmission infrastructure that is also needed, California is ill-prepared for the magnitude of these compounding electrification policy proposals. While solar and wind resources provide much needed generation throughout California's summer, these same resources cannot meet the prospective seasonal energy-intensive demands of residential heating, vehicle charging, and increased electrification of business and industry during the state's fall and winter seasons. The potential power generation and electric infrastructure cost and associated reliability implications for ratepayers is greatly understated in the Staff Proposal.

Conclusion
California's businesses and industries object to the Staff Proposal as it fails to adequately examine the numerous challenges that will result. The coalition further believes that while decarbonization is likely a component of California's emission reduction strategy, natural gas will still play a vital role in meeting energy demands. Until the state has constructed the necessary infrastructure to facilitate full electrification, addressed ratepayer affordability, and potential statutory conflicts, more collaboration is needed before moving forward. We are committed to finding cost-effective solutions to reduce GHG emission across all sectors but building decarbonization requires a combination of investment and innovation to deliver the needed solutions. For help with questions and additional information, please feel free to contact Robert Spiegel, Senior Policy Director for the California Manufacturers and Technology Association (CMTA), at rspiegel@cmta.net or (916) 498-3340.

Respectfully,

California Manufacturers and Technology Association
Agricultural Energy Consumers Association
Building Industry Association of Southern California
Building Owners and Managers Association of California
California Building Industry Association
California Business Properties Association
California Business Roundtable
California League of Food Producers
California Metals Coalition

[1] California Energy Commission. *Staff Paper: Revised 2022 Summer Stack Analysis.*
[2] California Energy Commission. *AB 2127 Electric Vehicle Charging Infrastructure Assessment.* Pg. 4.

California Natural Gas Vehicle Coalition
California Restaurant Association
California Retailers Association
Californians For Affordable and Reliable Energy
Energy Users Forum
Innovating Commerce Serving Communities
NAIOP California
Orange County Business Council

CC: Governor Gavin Newsom
President Marybel Batjer, CPUC
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Commissioner Darcie L. Houck, CPUC
President-appointee Alice Reynolds, CPUC