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Bay Area Air Quality Management District
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RE: Pacific Gas and Electric Comments on the Draft Amendments to Regulation 9, Rule 4 and Rule 6

Pacific Gas and Electric Company (PG&E) appreciates this opportunity to comment on the Bay Area Air Quality Management Districts (BAAQMD)'s October 7, 2021 workshop on draft amendments to Regulation 9, Rule 4 (Rule 9-4) and Regulation 9, Rule 6 (Rule 9-6). PG&E supports the intent of these proposed amendments to reduce indoor air quality pollutants as well as greenhouse gas (GHG) emissions through building decarbonization. In order to ensure stable gas rates for all Californians, PG&E supports a planned and collaborative building decarbonization approach that emphasizes targeted cost reductions of the natural gas infrastructure while maintaining reliability and safety.

PG&E recognizes the value of building electrification as a cost-effective tool in meeting California's climate goals. PG&E efforts like our WatterSaver, Advanced Energy Rebuild, and California Energy-Smart Homes Program (launching in 2022), have begun to incentivize low-carbon solutions in the building sector and PG&E has advocated publicly for all-electric new construction[1]. We applaud BAAQMD for taking similar steps in order to meet California's aggressive climate goals. However, electrification of existing buildings does not come without its own unique set of challenges. As Energy and Environmental Economics, Inc (E3) highlights in their report *The Challenge of Retail Gas in California's Low-Carbon Future,* "Absent a policy intervention, low-income customers who are less able to electrify may face a disproportionate share of gas system costs.[2]" It is because of these potential impacts to our most vulnerable customers that PG&E supports a comprehensive and targeted approach to building decarbonization.

PG&E therefore submits the following suggestions to improve the draft amendments to Rules 9-4 and 9-6 in order to ease the decarbonization transition burden on California's most vulnerable communities.

[1] CEC letter from June 2020
[2] The Challenge of Retail Gas in California's Low-Carbon Future (ethree.com), Page 5

Adapt a Phased-In Approach Targeting Areas of Strategic Zonal Electrification

PG&E has developed an internally used Gas Asset Analysis Tool to identify high-potential areas for "zonal electrification," or strategic de-commissioning of the natural gas system. The tool aims to synthesize various system conditions and asset characteristics—such as, but not limited to, age of assets, risks, number of customers, and system throughput—to provide insight about locations that may require maintenance or other cost incursion in the future. These locations may be candidates for zonal electrification and warrant further engineering, customer feasibility, costing review. PG&E has also developed an interactive planning tool to facilitate collaborative planning with local jurisdictions under a non-disclosure agreement. The tool is being piloted in a limited number of jurisdictions at this time. Working collaboratively with BAAQMD staff under a similar non-disclosure agreement, PG&E could work to identify areas where "zonal electrification" has high potential to reduce future gas system maintenance and may be hydraulically feasible and accepted by customers. In order to maintain equitable rates for all customers, these high potential zones could be targeted first by the 9-4 and 9-6 draft ordinances, while harder to electrify and/or most costly to electrify zones are left for a later phase of the ordinance.

Pair Rules 9-4 and 9-6 with Support for Other Carbon-Based Technologies

From a gas systems standpoint, PG&E urges BAAQMD to consider "whole building" level approaches that that support the targeted electrification necessary to make the transition affordable and equitable, rather than piecemeal ordinances targeted at select appliances. As E3 notes, "a managed gas transition would likely require some amount of targeted or zonal electrification, to enable a reduction in the gas distribution infrastructure. Without a managed gas transition and without any effort to target electrification, it would be difficult to reduce the size or scale of gas system investments and costs.[3]" In order to maintain safety and reliability, the natural gas system comes with necessary operations and maintenance needs, the costs for which are approved by the California Public Utilities Commission (CPUC) in PG&E's General Rate Case. Established gas service must be maintained until and unless a customer informs PG&E that they wish to terminate service; as such, gas system planners must assume continuation of existing gas demand and a need to keep all facilities operational. Falling gas demand across the system has limited impact on total gas system cost because existing facilities must be maintained safely for as long as they are in use, and the cost of maintaining facilities is largely fixed., Without strategies such as full building decarbonization or zonal electrification, the gas system and its associated maintenance costs are projected to stay the same or even rise while customer demand for gas falls. As those costs are spread over a smaller base of customers and a smaller volume, pressure on gas rates is likely to increase significantly. If instead, targeted electrification enabled a portion of the gas system to be retired rather than maintained, the future spending that would be avoided could help reduce some of the rate pressure. If similar

[3] The Challenge of Retail Gas in California's Low-Carbon Future (ethree.com), Page 6

ordinances addressing other common natural gas end uses such as cooking, laundry, and fireplaces are not anticipated, BAAQMD should work with PG&E and other appropriate stakeholders to ensure that customers are supported with financial and educational resources that encourage them to fully electrify their homes or businesses.

Work with ESJ Communities to Identify Resources to Alleviate the Cost Burden for Underserved Communities

Finally, PG&E wants to stress the importance of working with environmental and social justice organizations to provide additional support, education, and incentives for affected low-income customers. We have found engagement with ESJ communities to be of critical importance in early electrification pilots, such as the CPUC's San Joaquin Valley Pilot. Various stakeholders have also pointed to the fact that low-income customers may be less able to afford the transition to high efficiency heat pumps for space and water heating, as these technologies may still carry a price premium. This sensitivity was reinforced during the stakeholder workshops and by Board members in the Stationary Source Committee Hearing, and PG&E shares a similar concern in ensuring a just and equitable solution for all customers. Additional thought should be put to how best to quickly and effectively transition underserved communities and identify what additional resources may be needed to best keep these customers from being "left behind" or further burdened by these regulatory changes.

PG&E appreciates the opportunity to provide these comments and looks forward to continued discussion on these important rule amendments.

Please feel free to contact me if you have any questions or concerns.

Sincerely,

/s/

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