

continuation or modification decisions on or after January 1, 2028, and prepare annual reports to the Legislature beginning January 1, 2029 (Public Utilities Commission Utilities Reimbursement Account (PUCURA)).

The CPUC describes the program and work created by this bill as “complementary” of gas transition work resulting from the requirements of SB 1221 (Min), Chapter 602, Statutes of 2024 (see comments below).

COMMENTS:

- 1) **Background.** State law requires an IOU, including a nat gas IOU, to provide service to every customer in its service territory. In exchange for this obligation to serve, state law directs the CPUC to ensure the IOU is able to recover through rates the IOU charges to its customers the IOU’s costs of providing the service.

California has ambitious clean energy goals. Most notably, existing laws require California to achieve statewide carbon neutrality as soon as possible, and no later than 2045. This goal presents a challenge for the state nat gas IOUs, as their core business model—delivery of gas for combustion—necessarily results in the emission of carbon dioxide and other greenhouse gases.

With these clean energy goals in mind, the state is planning its transition away from the use of natural gas. One such effort is the result of recently enacted legislation, SB 1221 (Min), which requires the CPUC to designate up to 30 zones to take part in pilot projects in which the relevant nat gas IOU may stop providing gas service, but only if adequate substitute energy service is reasonably available.

This bill takes a different approach, in that, in contrast to SB 1221’s zonal degasification, this bill allows an individual nat gas IOU customer to elect to replace natural gas distribution service with energy service that does not use natural gas.

Of course, such a customer could choose to forgo natural gas service today by installing electric appliances. Such a customer could go even further by requesting the incumbent nat gas IOU remove the customer’s natural gas service connection altogether. And, as nat gas IOU San Diego Gas and Electric (SDG&E) points out, the SB 1221 pilot programs have yet to begin. Those pilot programs, SDG&E argues, will “generate real-world data to inform public policy” and this bill “bypasses these ongoing efforts with a mandatory statewide framework before these pilots are completed thereby locking in an uninformed program that is less safe, cost effective, or equitable for Californians.”

In contrast, as noted above, the CPUC describes this bill as largely “complementary” of its work to implement SB 1221 and its pilot programs. Nonetheless, the CPUC warns that, despite the bill’s requirement that the CPUC ensure customers remaining on the gas distribution system are held indifferent to departure of other gas customers, it will be “hard” to ensure departing nat gas IOU customers bear an equitable share of unrecovered gas infrastructure costs. Such an inequitable outcome would be similar to that which happened under the state’s net energy metering (NEM) program, which, according to analyses by the Public Advocate’s Office and others, shifts substantial costs from customers who participate in the NEM program to those who do not. The author might want to consider additional ways to avoid a similar outcome under the program created by this bill.

- 2) **Support and Opposition.** This bill is supported by a variety of environmental organizations of various types, some community choice aggregators and electric IOU Southern California Edison, the latter of which describes the bill as creating “a customer-driven pathway for the clean energy transition.”

The bill is opposed by Sempra-affiliated nat gas IOUs SDG&E and Southern California Gas, who together argue this bill:

continues to pose material risks to customer safety, affordability, and equitable treatment...impose[s] a statewide mandate with insufficient safeguards against cost shifts, unresolved operational complexities, and outcomes that may disproportionately burden those least able to bear them, while bypassing the substantive analytical work and assessment on zero emission alternatives already underway through SB 1221.

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