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California must plan the state's gas system transition or face immense risk as increasing infrastructure costs coincide with dramatic decline in demand

*Report from key stakeholders points to pressing need for planning to
mitigate costs and maximize benefits in decades-long transition*

SAN FRANCISCO—California urgently needs a plan to address profound shifts that are set to occur in the state's gas system over the coming decades, as clean electricity and carbon-neutrality targets cause a dramatic decline in gas demand at the same time as gas infrastructure costs are increasing. Without a managed transition to a smaller, more affordable and equitable gas system - customers, workers, low-income communities, and the broader economy will suffer, according to a new report released today by the think tank Gridworks.

The report, *California's Gas System in Transition: Equitable, Affordable, Decarbonized and Smaller*, follows a series of meetings between key consumer, labor, equity, utility and environmental stakeholders to provide recommendations about the compounding suite of issues facing California's gas system.

"California's energy landscape is changing dramatically, requiring urgent action and planning," said Matthew Tisdale, executive director of Gridworks. "The real risk now lies in not confronting these challenges head on. The longer we wait, the worse our options are."

Data in the report shows the cost of safely maintaining California's gas system has risen in recent years, and is set to rise again with utilities PG&E and SoCalGas requesting rate increases to fund necessary safety investments. At the same time, renewable electricity is increasingly replacing gas-fired electricity generation to help meet the clean electricity targets laid out in Senate Bill 100, and state and local government policies and programs are promoting electrification of residential and commercial buildings.

Research from Environmental and Energy Economics (E3) cited in the Gridworks report shows these trends leading to a decline in gas demand by at least 30 percent by 2050, and possibly more than 50 percent. Without a managed transition, residential gas rates could increase dramatically.

“The declining use of gas in California can help reduce the disproportionate health and pollution burdens that environmental and social justice communities face,” said Mad Stano, program director with California Environmental Justice Alliance. “But we cannot leave this situation up to chance. We must proactively plan for an equitable transition that empowers low-income Californians with the tools they need to move off of the gas system before they face even higher rates - furthering the already unacceptably high energy bills that many in California struggle to pay.”

According to E3 data presented to the California Energy Commission earlier this year, a statewide decarbonization strategy that relies upon high levels of building electrification provides the lowest-cost path to meeting 2050 goals from a total societal cost perspective. This scenario pencils out to be about \$5 - \$20 billion less expensive per year by 2050 than relying on other strategies. But while this may prove the most prudent path for society as a whole, it has the potential to introduce significant equity challenges. As more customers reduce or entirely cease their gas consumption, the last customers left on the gas system will be left to shoulder ever-increasing infrastructure costs - leading to unacceptably high rates if this transition is not proactively managed to protect these communities.

The report calls for the development of a comprehensive strategy to ensure that low-income communities are empowered by the transition away from gas, rather than being left behind - with a plan to minimize and stabilize rate increases while helping gas customers move off of the system equitably.

“We urgently need a gas transition strategy to shield Californians from sharply higher heating bills and to protect workers who’ve dedicated their careers to maintaining a safe gas system,” said Natural Resources Defense Council Senior Scientist Merrian Borgeson. “With strong leadership, partnership and determination from all stakeholders, we can meet the state’s climate targets while undertaking an equitable transition.”

“Californians have spent a tremendous amount of money on our gas system. The need for this managed transition is evident so that our state can continue to have an affordable, clean and safe energy economy,” said Michael Colvin, director of the California Energy Program at Environmental Defense Fund. “With a clear plan in place, our state can honor the commitments of the past and make smarter and cleaner investment choices going forward.”

The report highlights that even with reduced demand for gas, there will still be a need for a well-trained gas workforce for decades to come. But stress on utility finances could force workforce cuts with little to no warning. Even without layoffs, gas workers who see their industry

in decline will proactively seek other employment, robbing the utilities of the skilled and experienced workers necessary for maintaining a safe and reliable system. A transition designed in collaboration with unions will minimize these adverse impacts, and protect workers.

“We recognize that the gas industry is facing great change” said Anthony Brown, senior assistant business manager of IBEW Local 1245, which represents gas and electric workers at PG&E. “The jobs of the men and women who work in the gas industry are vitally important contributors to our public safety and economic stability. This highly skilled workforce must be protected so that they can continue to provide safe gas service to our communities as long as it is needed, and so that they are not harmed by whatever the future holds.”

To stabilize rates in this period of declining gas throughput, the report points to the need to reduce gas system costs - which are traditionally passed onto utility customers - as consumer demand declines. To this effect, other key recommendations from the report include:

- Initiating interagency, integrated long-term planning for gas demand, usage and the transition of the delivery system.
- Requiring all new residential and commercial construction to be all-electric as quickly as possible to minimize gas infrastructure investments that will be unrecoverable with decreasing gas sales.
- Identifying alternatives to significant new investments in the gas delivery system, not otherwise needed to maintain system safety and reliability, such as targeted electrification of specific neighborhoods.

“The first thing you do when you realize you’re in a hole is to stop digging,” said Mike Florio, former CPUC Commissioner, lead author of the report, and senior fellow at Gridworks. “With prudent long-term planning for how we equitably manage this transition, California has the opportunity to demonstrate how governments can minimize costs for workers and communities even as we move away from fossil fuels and on to cleaner, healthier, and more sustainable energy systems.”

This report was developed as part of a Gridworks initiative to bring together diverse stakeholders to understand the potential impacts of declining gas use on the gas distribution system, the gas workforce, public safety, and bill affordability and to consider solutions might to address those issues. Read the report at www.gridworks.org.

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About Gridworks: *Gridworks’ mission is to convene, educate and empower stakeholders working to decarbonize electric grids. Since 2010, Gridworks has enabled this mission through four strategies: by identifying high-value challenges to decarbonizing electricity grids; convening stakeholders and providing them neutral ground, technical support and facilitation to identify*

break-through solutions to identified challenges; publishing and helping implement identified solutions; and adapting successful solutions to new markets.