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SoCalGas Comments on Doubling Energy Efficiency Savings

Additional submitted attachment is included below.



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California Energy Commission
Dockets Office, MS-4
1516 Ninth Street
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**Subject: Comments on the IEPR Staff Workshop on 2030 Energy Efficiency Targets,
Docket number 17-IEPR-06 –Doubling Energy Efficiency Savings**

Dear Commissioners:

Southern California Gas Company (SoCalGas) appreciates the California Energy Commission (CEC) hosting the California Public Utilities Commission (CPUC) in an Integrated Energy Policy Report (IEPR) Staff Workshop to discuss proposed methodologies for establishing the 2030 energy efficiency (EE) savings targets called for by Senate Bill (SB) 350 to achieve the statewide cumulative doubling of EE savings in gas and electric final end-uses by 2030. SoCalGas supports these ambitious efforts, but also encourages the CEC to consider impacts to ratepayers and the State's environmental objectives when evaluating proposals such as fuel substitution. We urge the CEC to follow CPUC guidance on cost-effectiveness, reliability and feasibility, as well as SB 1383 and the California Air Resources Board's (CARB) goals for increased utilization of renewable gas to reduce greenhouse gas (GHG) emissions.

Treatment of Fuel Substitution Programs

In the CEC presentation "Additional Topics: CVR/VVO, Fuel Substitution, and Reporting Requirements", staff distinguished between the treatment of fuel-switching and fuel substitution measures by defining fuel substitution measures as "end-use device shifts from natural gas to electricity" and fuel switching as "non-utility fuel shifting to electricity." Similar distinctions were made when discussing site energy savings energy reductions requirements, which only considered the case of replacing an electric end use. This is a shift away from CEC's definitions provided in its Staff Paper, *Framework for Establishing the Senate Bill 350 Energy Efficiency Savings Doubling Targets*¹ because this approach only considers the single case of substitution from natural gas to electric fuels. Instead, CEC Staff should also consider substitution from electric to natural gas fuels as a viable option to contribute toward the SB 350 EE savings targets so long as both energy savings and GHG reductions can be achieved. SoCalGas encourages the

¹ Staff Paper available at http://docketpublic.energy.ca.gov/PublicDocuments/17-IEPR-06/TN215437_20170118T160001_Framework_for_Establishing_the_Senate_Bill_350_Energy_Efficienc.pdf.

CEC to utilize the CPUC's established rules, referred to as the three-prong test², to determine if the substitution of EE technologies is eligible as a ratepayer-funded EE program/measure/project. These rules, which align with SB 350, are intended to ensure that eligible fuel substitution projects are cost-effective, more efficient, and do not adversely affect the environment. The three-prong test consists of the following requirements³:

- a. The EE program/measure/project must not increase source-BTU consumption. Proponents of fuel substitution programs should calculate the source-BTU impacts using the current CEC-established heat rate.
- b. The EE program/measure/project must have Total Resource Cost (TRC) test and Program Administrator Cost (PAC) test benefit-cost ratio of 1.0 or greater. The tests used for this purpose should be developed in a manner consistent with Rule IV.4 (currently referenced as XV.4 in CPUC's Energy Efficiency Policy Manual, Version 5.0).
- c. The EE program/measure/project must not adversely impact the environment. To quantify this impact, respondents should compare the environmental costs with and without the program using the most recently adopted values for avoided costs of emissions. The burden of proof lies with the sponsoring party to show that the material environmental impacts have been adequately considered in the analysis.

Considering source energy is more appropriate than site consumption in the case of fuel substitution because source energy accounts for total energy resources required by the technologies being compared. Additionally, to verify appropriate performance standards are used, the three-prong test compares the technologies offered by the program/measure/project with the industry standard practice same-fuel substitute technologies available to prospective participants, which would have TRC and PAC benefit-cost ratio of 1.0 or greater.⁴ When projects pass the three-prong test, EE credit (and ultimately SB 350 EE target compliance) go to the utility of departing load. The IEPR should align with the CPUC's rules in these regards.

SoCalGas cautions against reconciling the three-prong test in way that may compromise the test's screen to make sure that technologies are predominantly EE (and not load building or retaining), and provide net resource value to the ratepayer funding these programs, and maintain customer choice in the marketplace. Investor-Owned Utilities (IOUs) must utilize ratepayer funds to offer a cost-effective portfolio of EE measures and programs. Any modification of the test could potentially remove or reduce these ratepayer protections by masking the cost or inflating the benefit to the ratepayer. Furthermore, the IOUs have an obligation to pursue EE first in California's Loading Order and to meet unmet resource needs through EE and demand reduction resources that are cost-effective, reliable, and feasible under the California Public Utilities Code.⁵ The three-prong test was developed to confirm that any proposed fuel substitution activities for EE technologies are in accordance with these requirements and is therefore an important ratepayer protection strategy.

² Energy Efficiency Policy Manual, Version 5, July 2013, p. 24-25.

³ *Id.*

⁴ *Id.*, at 24.

⁵ See Public Utilities Code Sections 454.5 and 454.56 for electric and gas corporations, respectively.

Natural gas is the lowest-price fuel source in California, and provides valuable, low-cost energy to ratepayers, including the 33% of SoCalGas residential customers that are enrolled in the California Alternate Rates for Energy (CARE) program.⁶ In fact, in the CEC’s Pre-Rulemaking on 2019 Building Energy Efficiency Standards docket, an Energy and Environmental Economics, Inc. (E3) study examining building electrification found a \$24 monthly energy bill increase when moving to an all-electric home from a mixed-fuel home.⁷ Additionally, E3’s analysis showed that an all-electric home required more energy than a mixed-fuel home.⁸

Electrification of Final End-Uses Impedes Implementation of Climate Goals

SoCalGas also cautions that including electrification of final end-uses as a strategy to reduce energy consumption may preclude implementing California’s goals to increase the use of renewable gas in the transportation and building sectors. The State recently adopted several policies that rely on the continued use of natural gas infrastructure to meet the state’s decarbonization goals. Specifically, SB 1383 and CARB’s Short-Lived Climate Pollutant (SLCP) Reduction Plan require the increased use of renewable gas to reduce methane from organic sources by 40% by 2030, including injection into natural gas pipelines and utilization in the transportation sector.⁹ Reliable natural gas infrastructure is crucial to meeting these objectives and then delivery of renewable gas to end-uses.

Furthermore, CARB’s 2017 Climate Change Scoping Plan Update relies heavily on the SLCP Reduction Plan to achieve about one-third of GHG reductions needed to reach the 2030 goals¹⁰ and demonstrates that California can meet its 2030 goals *without* electrification of buildings. The Proposed Scoping Plan Scenario (Proposed Scenario) analysis states that “this scenario does not include fuel-switching of natural gas or diesel end uses to electric end uses.”¹¹ Rather, the 2030 goal can be met by extending existing programs such as Cap-and-Trade and the Low Carbon Fuels Standard, and implementation of new legislation such as SB 1383. CARB’s economic analysis also demonstrates that the Proposed Scenario achieves the 2030 goal in a more cost-effective manner than alternative scenarios that include electrification of buildings.¹²

Natural gas use in ultra-low emitting technology applications will also help achieve GHG emission reductions targets and generate air quality benefits. Replacing the use of fossil natural gas with renewable gas could be an effective “fuel-substitution” measure—not only to reduce GHGs associated with energy use, but also to reduce methane emissions from organic sources, which account for over 80% of California’s methane emissions. Renewable gas

⁶ Monthly Report of Southern California Gas Company (U 904 G) on Low-Income Assistance Programs For February 2017.

⁷ Electrification Analysis, report completed by Energy & Environmental Economics in July 2016.

⁸ *Id.*

⁹ CARB Short-Lived Climate Pollutant Reduction Strategy, March 2017 p. 66.

¹⁰ CARB Proposed Scoping Plan, (January 2017) Figure 2 p. 41

¹¹ CARB Proposed Scoping Plan, (January 2017) Appendix D at 8.

https://www.arb.ca.gov/cc/scopingplan/app_d_pathways.pdf

¹² CARB Scoping Plan Appendix E p17, January 2017.

https://www.arb.ca.gov/cc/scopingplan/app_e_economic_analysis_final.pdf

can be used for all existing natural gas end-uses to lower net life-cycle GHG emissions by at least 40%.¹³ A CARB/UC Davis study estimated that around 20% of California’s residential natural gas can be supplied by renewable gas from organic sources such as dairy manure, landfills, organic municipal solid waste, and wastewater treatment facilities.¹⁴

2030 IOU Energy Efficiency Target Setting

As stated in the CPUC’s Energy Efficiency Potential and Goals Study for 2018 and Beyond draft public report (Potential and Goals Study), a significant number of policy changes in California based on the direction of SB 350 and Assembly Bill (AB) 802 have modified the approach and methodology of forecasting EE savings for the IOUs. Concurrently, activities have been undertaken by the CPUC to revisit cost-effectiveness methodologies for EE and other distributed energy resources to consider the cost and value of environmental benefits in the current cost-effectiveness tests, given the change in statewide GHG targets. To address these changes and activities, the Potential and Goals Study has offered multiple EE forecast scenarios to inform the goal setting processes of the CPUC and CEC.

SoCalGas echoes the CPUC’s takeaway in its presentation “Staff Workshop on Methodologies for SB 350 Energy Efficiency Target Setting” that EE targets informed by the Potential and Goals Study be based on cost-effectiveness, reliability, and feasibility obligations of the IOUs. Caution should be taken as the forecasted scenarios are evaluated to verify that the benefits from EE as an energy resource are appropriately valued and do not mask the actual cost of EE technologies or measures, yielding a costlier outcome to both EE program participants and ratepayers. This has been emphasized by multiple parties including SoCalGas in the Integrated Distributed Energy Resources (IDER) proceeding (R.14-10-003) on the proposal of a societal cost test that:

“the [CPUC] should adopt sufficient safeguards to ensure ratepayers are not shouldering an unreasonable burden for California’s broader societal goals...” and “... should strive to minimize cost shifting among participating and non-participating customers, and ensure that in all cases both participants and non-participants benefit from the expenditure of ratepayer funds.”¹⁵

SoCalGas is actively engaged with the CPUC and stakeholders in both IDER and EE proceedings (R.13-11-005) where these topics are being considered. SoCalGas will continue to work with the CPUC to determine appropriate goals that are achievable and that best represent the market potential for natural gas energy savings.

¹³ https://www.arb.ca.gov/fuels/lcfs/121409lcfs_lutables.pdf

¹⁴ <https://www.arb.ca.gov/research/apr/past/13-307.pdf>

¹⁵ Reply Comments of Southern California Edison, Pacific Gas and Electric Company, Southern California Gas Company, and San Diego Gas & Electric Company on Administrative Law Judge’s Ruling Taking Comment on Staff Proposal Recommending a Societal Cost Test, R.14-10-003, April 6, 2017, p. 4.

Conclusion

SoCalGas appreciates the CEC's consideration of these comments in the 2017 IEPR and looks forward to continuing to work on advancing California's energy policy goals and objectives. Please do not hesitate to contact us for more information.

Sincerely,

/s/ Tim Carmichael

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