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SoCalGas Comments on SB 350 Energy Efficiency Savings Doubling Targets Staff Papers

Additional submitted attachment is included below.



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Subject: Comments on CEC Staff's Two Draft Papers on SB 350 Energy Efficiency Savings Doubling Targets, Docket #17-IEPR-06

Dear Commissioners:

Southern California Gas Company (SoCalGas) appreciates the California Energy Commission (CEC) staff's publication of two draft reports on energy efficiency (EE) savings targets. SoCalGas supports the State's ambitious efforts and offers the following comments regarding the two staff papers,¹ entitled *Senate Bill 350 Energy Efficiency Target Setting for Utility Programs* and *Senate Bill 350 Energy Efficiency Targets for Programs Not Funded through Utility Rates* for the CEC's consideration. As there are a number of questions in the staff papers to be resolved, SoCalGas encourages CEC to ensure initial targets are based on existing policy and cost effectiveness.

Our comments are organized as follows:

- 1. Site Energy and Source GHG Emissions**
 - a. *Clarity is needed on the proposed model for site vs. source emissions*
- 2. Requirements for Fuel Substitution Technologies**
 - a. *Electrification of final end-uses impedes implementation of climate goals*
- 3. Special Cost-Effectiveness Considerations (3-prong test)**
 - a. *CPUC's 3-Prong test should not be replaced*
 - b. *The two reports' approach to cost-effectiveness is inconsistent*
- 4. Inter-utility Departing Load/Gaining Load Considerations**
- 5. Reporting Data and Cumulative Goals**

- 1. Site Energy and Source GHG Emissions**

- a. *Clarity is needed on the proposed model for site vs. source emissions*

¹ http://www.energy.ca.gov/2017_energypolicy/documents/#07212017

Although using *site* energy metrics may have merits in measuring EE outcomes and end-user costs, it should not be used to justify measures in the absence of *source* or *TDV* metrics which provide necessary context to ensure lifecycle greenhouse gas (GHG) emissions are not adversely impacted. PRC 25310(d)(10) clearly states “reduce greenhouse gas emissions as measured on a lifecycle basis,” which implies that source energy characteristics must be considered in these measures. Additionally, SoCalGas contends that cost-effectiveness of these measures should be given due consideration to ensure ratepayer funds are prudently managed and prioritized to maximize outcomes.

2. Requirements for Fuel Substitution

a. Electrification of final end-uses impedes implementation of climate goals

SoCalGas cautions that including electrification of final end-uses as a strategy to reduce energy consumption may preclude adoption other lower carbon energy sources and decelerate achievement of the state’s climate goals. 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 California Air Resources Board’s (ARB) 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.² Reliable natural gas infrastructure is crucial to meeting these objectives of delivering renewable gas to end-uses.

Furthermore, ARB’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 goals and demonstrates that California can meet its 2030 goals without electrification of buildings.³ 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.”⁴ Rather, the 2030 goal can be met by existing programs such as Cap-and-Trade and the Low Carbon Fuel Standard, and implementation of new legislation such as SB 1383. ARB’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.⁵

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

² CARB Short-Lived Climate Pollutant Reduction Strategy, March 2017 p. 66.

³ CARB Proposed Scoping Plan, (January 2017) Figure 2 p. 41

⁴ CARB Proposed Scoping Plan, (January 2017) Appendix D at 8.
https://www.arb.ca.gov/cc/scopingplan/app_d_pathways.pdf

⁵ CARB Scoping Plan Appendix E p17, January 2017.

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

organic sources, which account for over 80% of California’s methane emissions. Renewable gas can be used for all existing natural gas end-uses to lower net life-cycle GHG emissions by at least 40%. An ARB/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.

6

3. Special Cost-Effectiveness Considerations (3-prong test)

a. CPUC’s 3-prong test should not be replaced

SoCalGas encourages the CEC to utilize the CPUC’s established rules, referred to as the three-pronged test, to determine if fuel substitution measures are eligible as ratepayer-funded energy efficiency measures.⁷ These rules are intended to ensure that eligible fuel substitution projects are cost-effective, more efficient, and do not adversely affect the environment. In most cases, projects do not pass the three-pronged test because they are not cost-effective, and are therefore not eligible for ratepayer-funded programs. The Integrated Energy Policy Report (IEPR) should align with the CPUC’s rules in this regard.

SoCalGas cautions against modifying the three-prong test in a way that may compromise the test’s screen to make sure that technologies are predominantly energy efficient (and not load building or retaining), provide net resource value to the ratepayers 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 energy efficient 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. The three-prong test was developed to confirm that any proposed fuel substitution activities for energy efficient technologies are in accordance with these requirements and is therefore an important ratepayer protection strategy.

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. The economic impact on ratepayers—especially low-income ratepayers—must be taken into account when considering EE. Without natural gas, the cost of energy for many consumers could rise: 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

⁶ <https://www.arb.ca.gov/research/apr/past/13-307.pdf>

⁷ Energy Efficiency Policy Manual Version 5, July 2013 (R.09-11-014), pg. 24-25.

mixed-fuel home.⁸ Additionally, E3's analysis showed that an all-electric home required more energy than a mixed-fuel home.

b. The two draft reports' approach to cost-effectiveness is inconsistent

In *Senate Bill 350 Energy Efficiency Target Setting for Utility Programs*, the staff propose "use of a production simulation model that will develop 8,760 hourly GHG emissions per unit of electric generation through time... [and] believes environmental impacts element of the three-prong test can be replaced by a more straightforward GHG emission assessment" (p.49).

However, *SB 350 Energy Efficiency Targets for Programs Not Funded through Utility Rates* states, "in its SB 350 target setting work, for the above and any other energy efficiency programs not listed above, **staff recommends that the Energy Commission not supersede any cost effectiveness test adopted and used by the entity with authority over the program.** For any other programs and energy efficiency measures, staff recommends that the Energy Commission use the general definition of cost-effectiveness in section 25000.1(c) of the Public Resources Code" (*emphasis added*).⁹

The CEC should take a consistent approach to the cost-effectiveness test to both utility and non-utility programs. As described above, SoCalGas does not believe the three-prong test should be replaced, as it appropriately protects ratepayers' interests.

4. Inter-utility Departing Load/Gaining Load Considerations

To ensure 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 that would have Total Resource Cost (TRC) and Program Administration Cost (PAC) benefit-cost ratio of 1.0 or greater.¹⁰ 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.

5. Reporting Data and Cumulative Goals

SoCalGas seeks clarity on how aspirational goals will impact actual goal setting. Additionally, SoCalGas requests more information on how staff plans to account for cumulative savings given the increase in potential identified for measures with shorter effective useful lives (EULs) and how savings are treated for these measures past their EULs. The CPUC is currently considering cumulative goals as an on-going issue regarding

⁸ Electrification Analysis, report completed by Energy & Environmental Economics in July 2016.

⁹ Senate Bill 350 Energy Efficiency Targets for Programs Not Funded through Utility Rates, July 2017 at 3.

¹⁰ Energy Efficiency Policy Manual, Version 5, July 2013 at 24.

how to treat savings decay and reparticipation. SoCalGas cautions that this is a major issue that needs to be resolved between both the CEC and CPUC for consistent treatment of cumulative savings.

SoCalGas emphasizes that EE targets set forth for SB350 be based on cost-effectiveness, reliability, and feasibility obligations of the IOUs. The 2018 and Beyond Potential and Goals Study forecasted scenarios are evaluated to ensure that the benefits from EE as an energy resource are appropriately valued and do not mask the actual cost of energy efficient 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.”¹¹

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.

Given the CEC’s need to track cumulative goals in the State’s effort to achieve the cumulative doubling of statewide energy efficiency, SoCalGas cautions that challenges associated with accounting for energy savings decay and future market potential, incorporation of evaluation data on the estimates of decay, and the achievement of future annual goals continue to persist and must be resolved. The CPUC shifted to annual goals in the 2013-2014 cycle to resolve these issues,¹² but CPUC staff and the Demand Analysis Working Group were unsuccessful in identifying suitable approaches to develop cumulative savings.¹³

One such area where this issue is of large concern involves savings from behavioral, retro-commissioning, and operational (BROs) program and measures. Behavioral program savings typically have a very short effective useful life (EUL). Combined with the fact that some of the savings are naturally occurring, and that BROs programs and measures make up a continually increasing portion of the IOU potential and goals forecast of the 2018 and

¹¹ 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.

¹² CPUC D.12-05-015, p. 94-95.

¹³ June 15 2017 Administrative Law Judge’s Ruling Inviting Comments on Draft Potential and Goals Study, p. 6 (Question 2).

Beyond Potential and Goals study, uncertainty regarding the treatment of energy savings decay and reparticipation must be resolved as decay make-up savings will become a large portion of EE goals as the State tracks the 2015-2030 term.

SoCalGas continues to echo the concerns in comments docketed in the CEC's Energy Collection Rulemaking R.16-OIR-03 regarding protection of customer privacy and the volume of data being proposed by the CEC, which applies to both gas and electric utility customers. SoCalGas emphasizes the direction from the Legislature that the CEC minimize the data it collects in order to protect personal privacy and confidentiality and to reduce duplicative, unnecessary, and burdensome reporting obligations on the entities and consumers from which the CEC collects the data.¹⁴ Further, IOUs have been refining reporting requirements as part of the EE rolling portfolio process which has considered the requirement of SB 350. The CEC should align reporting requirements as much as possible to ensure efforts are not duplicated.

Conclusion

SoCalGas strongly believes that a diverse energy portfolio which includes multiple fuels and technologies is needed to meet California's energy needs and environmental policies in a cost-effective manner. Natural gas utilization in ultra-low emitting technology applications will 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 to not only reduce GHGs associated with energy use, but would also reduce methane emissions from organic sources.

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.

Sincerely,

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¹⁴ Public Resources Code Section 25320.