

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



**FILED**  
07/18/19  
04:59 PM

Order Instituting Rulemaking Concerning Energy  
Efficiency Rolling Portfolios, Policies, Programs,  
Evaluation, and Related Issues.

Rulemaking 13-11-005  
(Filed November 14, 2013)

**OPENING COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)  
TO PROPOSED DECISION MODIFYING THE ENERGY EFFICIENCY THREE-  
PRONG TEST RELATED TO FUEL SUBSTITUTION**

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July 18, 2019

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Pursuant to Rule 14.3 of the California Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure, Southern California Gas Company (“SoCalGas”) hereby submits these Opening Comments on the Proposed Decision Modifying the Energy Efficiency Three-Prong Test Related to Fuel Substitution of Administrative Law Judge (“ALJ”) Julie A. Fitch (“Proposed Decision” or “PD”).

Since its adoption in 1992, the Commission has suitably relied on the three-prong test to ensure that new Energy Efficient (“EE”) technologies which cause a substitution between electric and natural gas energy were predominantly EE (and not load building or load retention) and provided a net resource value to protect ratepayers’ interest, ensure affordability, and maintain customer choice in the marketplace. The PD removes the second prong of the test, related to cost-effectiveness, without the involvement of a full stakeholder process, including the chance for parties to fully examine the implications of a change to the long-standing three-prong test. If adopted, the newly proposed fuel substitution test has the potential to remove or reduce ratepayer protections by masking the cost or inflating the benefit of new EE technology, encourage fuel wars between gas and electric, and impact energy affordability and grid reliability.

Adoption of the Proposed Decision should thus be deferred until a more detailed, transparent, and careful review can take place either in this proceeding or in the Commission’s Building Decarbonization Rulemaking (R.19-01-011), as the outcome of changes to the test or the policy concerning fuel substitution could have significant implications for the State.

## I. BACKGROUND

The three-prong test for fuel substitution programs associated with EE technologies was established and adopted through Decision (D.) 92-10-020 and D.92-12-050. The three-prong test consists of the following requirements:

- a. The program/measure/project must not increase source-BTU consumption.
- b. The program/measure/project must have TRC and PAC benefit-cost ratio of 1.0 or greater.
- c. The program/measure/project must not adversely impact the environment.

Over two years have passed since a group of parties filed a Motion Seeking Review and Modification of the Three-Prong Fuel Substitution Test<sup>1</sup> in the Commission's Integrated Distributed Energy Resources Rulemaking ("R.") 14-10-003. A few months later, the Joint Parties filed a similar Motion in the Energy Efficiency ("EE") proceeding (R.13-11-005)<sup>2</sup> urging the Commission to address the request to modify the three-prong fuel substitution test. Pursuant to Rule 11.1 of the Commission's Rules of Practice and Procedure, parties, including SoCalGas, filed responses to the Motion on June 23, 2017. Notably, there was no formal comment process and not all stakeholders participated by responding to the Motion. The issuance of the Proposed Decision, which gets rid of the cost-effectiveness prong of the three-prong test and renames it the fuel substitution test, marks 24 months that have passed without any regulatory process to assess the impacts of revising the three-prong test, a test that has been around for decades, benefiting ratepayers by promoting reduced energy use while keeping rates reasonable.

## II. THERE IS A LACK OF A TRANSPARENT STAKEHOLDER PROCESS IN REVISING THE TEST

SoCalGas believes that such a substantial change to a long-standing test should not be taken without more analysis, transparency, and stakeholder input. The two decisions (D.92-10-020 and D.92-12-050) that ultimately adopted the three-prong test for fuel substitution programs associated with EE technologies were established and adopted through a transparent stakeholder

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<sup>1</sup> On February 28, 2017, the Natural Resources Defense Council (NRDC), Sierra Club, the Solar Energy Industry Association (SEIA), and the California Energy Efficiency Industry Council (CEEIC) (collectively, "Joint Parties") filed the Motion.

<sup>2</sup> Motion of NRDC, Sierra Club, and the California Energy Efficiency Industry Council Seeking Review and Modification of the Three-Prong Fuel Substitution Test, June 8, 2017.

process. This process involved, at a minimum, a year-long regulatory proceeding that incorporated on the record input from various stakeholders and led to a number of Commission decisions which closely looked at the policy issues that would ultimately govern energy efficiency portfolios.<sup>3</sup>

In contrast, the Motion urging the Commission to take action on the three-prong test was filed more than two years ago and responses from parties were submitted 15 days after, without the chance to fully analyze potential impacts or alternatives. The Commission's action on the Motion then came in the form of the Proposed Decision which not only ignores the need to provide a full regulatory process with the involvement of all stakeholders in seeking modifications to the three-prong test, but defers the technical guidance on calculating one of the most critical parts of the proposed fuel substitution test (i.e. energy consumption of fuel substitution measures) to Energy Division.<sup>4</sup> Through this directive, Energy Division would be given complete discretion in the guidance it will issue and would not be required to incorporate input from subject matter experts other than the program administrators proposing the fuel substitution measure.<sup>5</sup>

The Commission should defer adoption of the Proposed Decision at this time and address the issue relating to fuel substitution and fuel switching in R.19-01-011. The Proposed Decision notes that "the venue for policy on fuel substitution that does not result in energy savings, as well as fuel switching, is within the context of the Commission's Building Decarbonization Rulemaking (R.19-01-011)."<sup>6</sup> It is unclear how energy savings will be achieved by the proposed fuel substitution test when its application could lead to an increase in electric-focused incentives that will phase out another energy source. Alternatively, the three-prong test should be subject to the full regulatory process in this proceeding to allow for more analysis and stakeholder input.

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<sup>3</sup> D.92-10-020 at pp. 6-10.

<sup>4</sup> Proposed Decision, OP 8.

<sup>5</sup> Proposed Decision, OP 2.

<sup>6</sup> Proposed Decision, COL 3.

### III. MORE TIME IS NEEDED TO EVALUATE ANY CHANGES TO THE THREE-PRONG TEST THAT COULD IMPACT AFFORDABILITY, GRID RELIABILITY, AND FUEL WARS

#### A. Energy Affordability

Adoption of the PD has the potential to impact energy affordability for customers. Public Utilities Code §§ 454.5 and 454.56 require Investor Owned Utilities (“IOUs”) to first meet their “unmet resource needs through all available energy efficiency and demand reduction resources that are **cost effective**, reliable, and feasible.”<sup>7</sup> The Commission’s current energy efficiency policy directs that all costs associated with the delivery of energy efficiency programs be included in determining the cost-effectiveness of each IOU’s EE portfolio. The Total Resource Cost (“TRC”) test, which is the component used in the cost-effectiveness prong of the three-prong test, has been the primary test adopted by the Commission. As defined in the CA Standard Practice Manual, the TRC test represents the combination of the effects of a program on both the customers participating and those not participating in a program.<sup>8</sup> These effects include the costs/investments made by customers participating, as discounting these costs ignores real resource costs borne by program participants/customers.

The Proposed Decision removes the cost-effectiveness prong from the test, and instead provides that, “fuel substitution measures will be reflected in the cost-effectiveness evaluation of a program administrator’s overall energy efficiency portfolio.”<sup>9</sup> However, the ability to offer costly measures within a cost-effective portfolio does not ensure the delivery of cost-effective energy efficiency. The PD also removes infrastructure upgrade costs from consideration at the measure level.<sup>10</sup> This change could result in significant customer costs that are summarily excluded from the formulation of cost-effectiveness, which does not render an accurate depiction of the benefits derived from the utilization of ratepayer funds for EE measures. Program administrators may also be incentivized to maximize participation in cost-ineffective programs

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<sup>7</sup> Cal. Pub. Util. Code §§ 454.5 and 454.56 (emphasis added).

<sup>8</sup> California Standard Practice Manual: Economic Analysis of Demand-side Programs and Projects, October 2001, at p. 18.

<sup>9</sup> Proposed Decision, pp. 2-3.

<sup>10</sup> *Id.* at p. 22 (“the installed measure cost should include the full incremental cost to install the measure in a customer’s home or business (technology, labor, and installation costs), but should exclude any additional upgrades required to increase the building total electric or natural gas load (e.g., electrical panel upgrades, running new gas lines, increasing size of natural gas lines, etc.)”).

(which allow them to build their market share and penetration), while only promoting other cost-effective programs to the point that their portfolio meets the overall cost-effectiveness requirement.

In addition, the removal of the cost-effectiveness prong will potentially allow program administrators to offer customers increased financial incentives for switching their energy source. The Commission should take into consideration the long-term costs associated with fuel substitution measures and the impact on affordability, which is one of the main issues currently facing California residents. According to the Traditional Housing Affordability Index from the California Association of Realtors, the percentage of homebuyers who could afford to purchase a median-priced, existing single-family home was only 28% in the fourth quarter of 2018.<sup>11</sup> Across the State, it takes a minimum annual income of \$122,340 to qualify for the purchase of median-priced single-family home of \$564,270.<sup>12</sup> To put this in perspective, the 2018 medium family housing income in Los Angeles County, a county served by SoCalGas, was \$69,300.<sup>13</sup>

Under the Proposed Decision ratepayer funds could potentially be used to subsidize the costs of upgrade, installation, and equipment for a fuel substation measure, but the Commission must also consider the long-term costs (i.e. higher monthly electric bills) that go with the introduction of these measures. In a time where affordability is an issue, the Commission must recognize that additional monthly costs to already struggling residents will not alleviate some of the issues it is trying to address in other proceedings such as R. 18-07-006 and R. 18-07-005. In April 2019, Southern California Edison's ("SCE") residential electric accounts in arrears totaled \$86.1 million.<sup>14</sup> In the same month, 520,465 SCE customers were at the brink of disconnection due to non-payment.<sup>15</sup> A recent Navigant Study on Impacts of Residential Appliance Electrification showed that homeowners would experience an annual energy bill increase in each

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<sup>11</sup> California Housing Affordability, 2018 California Association of Realtors Fourth Quarter Report. (<https://www.car.org/aboutus/mediacenter/newsreleases/2019releases/4qtr2018housingaffordability>).

<sup>12</sup> *Id.*

<sup>13</sup> U.S. Department of Housing and urban Development, FY 2019 Income Limits Documentation System. (<https://www.huduser.gov/portal/datasets/il/il2018/2018summary.odn>).

<sup>14</sup> Southern California Edison Monthly Disconnect Data Report, Appendix A: April 2019 Monthly Disconnect Data Report, May 20, 2019. In contrast, SoCalGas' total arrears for that same time period was \$1.06 million. See SoCalGas Disconnection Settlement Monthly Report, May 20, 2019.

<sup>15</sup> Southern California Edison Monthly Disconnect Report, May 20, 2019 (<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M293/K898/293898125.PDF>).

year after appliance electrification.<sup>16</sup> Appliance electrification in 2020 may increase a homeowner's annual energy bill by an estimated \$50 to \$387 per year across all home types in Bakersfield, Riverside, Compton, Oakland, and San Diego; using electricity rates for 2030 increases a homeowner's annual energy bill by \$69 to \$746 per year across these locations.<sup>17</sup>

## **B. Grid Reliability**

The proposed fuel substitution test could also have an impact on grid reliability as increased fuel switching to electricity causes load building which could result in loss of service in some communities. The revisions made to the three-prong test have the potential to favor one energy source over the other. These policy changes could affect potential solutions to achieving clean energy. Currently, dual-fuel homes provide their occupants with options which become especially important when there are electricity outages. Research released by the California Energy Commission ("CEC") in 2018 found that gas assets are far less vulnerable than electric infrastructure to widespread service disruptions caused by wildfires, extreme heat, sea-level rise, flooding, and other extreme climate-driven events. In 2017, SoCalGas commissioned a consulting firm, ICF, to investigate and document the lessons learned from the impacts of various natural disasters throughout the country on utility and transportation infrastructure.<sup>18</sup> The case studies from the ICF report highlighted problems caused by an over-reliance on any single energy source and demonstrated that utilizing a diverse energy delivery system contributes to greater reliability and community.<sup>19</sup> The Proposed Decision seeks to pave the way to achieving California's climate goals through energy efficiency, but it ignores that success in addressing climate change will have to come from various sectors and multiple technologies.

## **C. The Potential for Fuel Wars**

The Proposed Decision notes that the purpose of the three-prong test was to ensure that fuel substitution activity results in energy savings that do not harm the environment, but fails to

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<sup>16</sup> Navigant Study: Impacts of Residential Appliance Electrification, Final Report, August 31, 2018, at pp. 20-21.

<sup>17</sup> Navigant Study: Impacts of Residential Appliance Electrification, Final Report, August 31, 2018, at p. 21. These projected rates from the Navigant study do not account for the effect that wildfire cost recovery will undoubtedly have on electric rates, increasing them further.

<sup>18</sup> Case Studies of Natural Gas Sector Resilience Following Four Climate-Related Disasters in 2017, ICF.

<sup>19</sup> *Id.*, at pp. 26-28.

acknowledge another crucial purpose that the three-prong test addresses.<sup>20</sup> The three-prong test was also established to avoid fuel wars amongst utilities. The Commission recognized that:

[F]uel substitution programs that fail the TRC test may be effective in promoting new CEC standards. However, relaxing the TRC test could also introduce perverse incentives for the utilities to promote noncost-effective fuel substitution in the new construction-sector, since by doing so **they may be able to increase their future market share**. Therefore, we will still require that fuel substitution program elements or measures within new construction programs pass the three-prong test.<sup>21</sup>

The removal of the cost-effectiveness prong strays from this fundamental purpose. The removal of the cost-effectiveness prong will likely increase attempts by IOUs to offer fuel substitution measures to customers, with increased incentives to ratepayers to switch when they otherwise may not be particularly interested in fuel substitution or fully understand the long-term impacts. Through increased incentives and marketing for electricity, which the proposed fuel substitution test makes more likely, customers may be encouraged to switch without considering the long-term effects on affordability, resiliency, and reliability of delivered energy to the home as described above. In contrast, the current three-prong test ensures that all EE programs/projects/measures are weighed evenly, and consistently, regarding energy savings, environmental benefits, and cost-effectiveness.

The PD also provides that “building infrastructure upgrades such as electrical panel upgrades or installation or upgrading of natural gas lines should not be included in the measure costs associated with fuel substitution measures, either at the individual measure or the portfolio level.”<sup>22</sup> This change will potentially make it easier to introduce electric fuel substitution measures by ignoring the higher costs of electrical upgrades within portfolio cost-effectiveness. While the Proposed Decision maintains the requirement that energy efficiency portfolios overall must be cost-effective (meeting a 1.25 TRC), it changes an energy efficiency policy that was put in place to ensure that all costs are accounted for and that program administrators are achieving the most cost-effective portfolios possible.

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<sup>20</sup> Proposed Decision, at p. 10.

<sup>21</sup> D.92-10-020, Footnote 7 (emphasis added).

<sup>22</sup> Proposed Decision, at p. 45.



#### IV. ADDITIONAL POLICY ISSUES WITH THE FUEL SUBSTITUTION TEST

The Proposed Decision further directs that fuel substitution measures utilize a default net-to-gross (NTG) ratio assumption of 1.0.<sup>23</sup> The use of default NTG values should not automatically be 1.0. Except for Normalized Metering Energy Consumption and behavioral measures, there are no measures in energy efficiency that have received a default NTG value of 1. This direction provides unnecessary and unwarranted favorable treatment of fuel substitution measures. SoCalGas asserts that measures should continue to be treated equally. At a minimum, the Commission should ensure that the current NTG values of those fuel substitution measures already present in energy efficiency portfolios continue to apply.

#### V. CONCLUSION

SoCalGas appreciates the opportunity to provide comments on this matter and urges the Commission to defer adoption of the PD to allow for a more thorough and transparent process, including full stakeholder input and analysis of potential impacts.

Respectfully submitted on behalf of SoCalGas,

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<sup>23</sup> Proposed Decision, at p. 40.