**BEFORE THE PUBLIC UTILITIES COMMISSION**

**OF THE STATE OF CALIFORNIA**

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| In the Matter of the Application of Southern California Gas Company (U 904 G) Requesting Reauthorization of the Customer Incentive Program. | A.16-12-010<br>(Filed December 21, 2016) |

# OPENING BRIEF OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)

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## I. INTRODUCTION

Pursuant to Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission (CPUC or Commission) and the Administrative Law Judge's (ALJ) Ruling Revising Schedule issued September 6, 2017, Southern California Gas Company (SoCalGas) hereby submits its Opening Brief in the above captioned proceeding.

The modifications that make up the Customer Incentive Program (CIP), the subject of the Application,[1] are designed to focus the program on only those natural-gas technologies that will be more energy efficient or improve greenhouse gas (GHG) or criteria air pollutants emissions. The modifications also include additional controls to protect ratepayers and prevent free riders. With the added emphasis on energy efficiency, SoCalGas anticipates that while there may be some load growth on a case-by-case customer basis, the net impact of the CIP would be a decrease in gas load as compared to what customers would have chosen to do without the CIP.

## II. BACKGROUND

SoCalGas currently has two customer incentive programs: (1) the Core Pricing Flexibility Program; and (2) the Noncore Competitive Load Growth Opportunities Program.[2] On March 2, 2016, the Commission issued an initial draft Resolution in which the Commission raised certain questions about the Current Programs, including, for example, whether these programs remain consistent with legislation enacted subsequent to the Current Programs' institution and current

[1] Application of Southern California Gas Company (U 904 G) Requesting Reauthorization of the Customer Incentive Program (Application), p. 1.

[2] For the purposes of this brief, the Core Pricing Flexibility Program and Noncore Competitive Load Growth Opportunities Program are collectively referred to as "Current Programs."

Commission policy. Based on these questions, the Commission proposed to suspend the Current Programs.[3]

On May 16, 2016, the Commission issued a final Resolution (Resolution G-3515) in which the Commission acknowledged SoCalGas' arguments concerning the need for the Current Programs given the potential lost opportunities for investments in energy efficiency technologies. The Commission authorized SoCalGas to continue the Current Programs through 2016 with the condition that the projects incentivized by the programs are intended to improve energy efficiency.[4] The Commission also authorized SoCalGas to submit a new application seeking reauthorization of the Current Programs, if SoCalGas wishes to continue the Current Programs in 2017 and beyond.[5]

In response, SoCalGas modified components of the Current Programs to address the questions raised in Resolution G-3515 and filed this Application to seek Commission reauthorization of the modified Current Programs, now called the CIP.[6]

## III. PROPOSED CIP PROGRAM

The CIP is a fully elective, optional, and nondiscriminatory tariff service that will offer an incentive to customers which is fully funded by SoCalGas' shareholders. Ratepayers bear zero-risk and zero-cost as it relates to the CIP. The CIP will provide customers an opportunity to acquire natural gas technology that will be more energy efficient or improve GHG or criteria air pollutants emissions than an alternative option the customer would have otherwise chosen.[7] The CIP is designed to support the State's effort to transform California's energy economy to cleaner solutions, to give consumers cleaner and more efficient energy technology choices, and to improve the State's energy resiliency.[8] In addition, SoCalGas proposes a renewable natural gas (RNG) adder to incentivize increased demand for RNG.[9] The CIP is supported by certain local air quality management districts.[10]

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[3] Application, p. 2.
[4] *Id*.
[5] Application, p. 3.
[6] *Id*.
[7] Application, p. 3; Ex. SCG-01, p. 1, ln. 4-7.
[8] Ex. SCG-01, p. 1, ln. 13-15.
[9] Ex. SCG-01, p. 3, ln. 8-17.
[10] See "Letters from Air Quality Districts" attached as Attachments B.1 and B.2 to Ex. SCG-04.

Further, the CIP is designed to promote customer choice and support the innovation and industry growth of energy efficient and clean technology.[11] As such, the CIP is technology agnostic.[12] Some of the current technologies that may be eligible for the CIP include, but are not limited to, steam systems, furnaces, boilers, crucibles, pumps, onsite generation including combined heat and power (CHP), and other industrial type equipment.[13]

**A. Eligibility Components[14]**

1) Customer must either (a) have an active core or non-core gas account or (b) concurrently apply for new service with SoCalGas;

2) Customer must demonstrate the intent to install new, or to refurbish underutilized technology that utilizes natural gas. Customer must demonstrate this intent through an application process;

3) The technology must either (a) be more energy efficient than what the customer would have otherwise installed or (b) reduce greenhouse gas emissions and/or criteria air pollutants. A customer can meet the preceding criterion through one of four ways;

i. The technology must achieve GHG emissions or criteria air pollutant reductions;
ii. Onsite generation or Combined Heat and Power (CHP) system must meet the Federal Energy Regulatory Commission (FERC) efficiency standards;
iii. Technology must qualify for a Leadership in Energy and Environmental Design (LEED) point; or,
iv. Technology must be at least 10% more efficient than the lower cost alternative.

4) Customer must demonstrate that the CIP incentive was a material factor for installing the technology through a payback analysis and affidavit; and

5) Customer must commit to a utilization level with SoCalGas through the execution of a contract and an established Minimum Annual Quantity (MAQ).

[11] Ex. SCG-02, p. 11, ln. 5-6.
[12] Ex. SCG-02, p. 11, ln. 7.
[13] Transcript Vol. 1 (T.Nguyen), p. 83, ln. 8 – p. 84, ln. 18.
[14] See generally, Ex. SCG-02, pp. 2-3.

### B. Incentives to Customer[15]

SoCalGas proposes to offer two incentive options: (1) a One-Time Payment Incentive; or (2) a rate discount applied through the term of the contract (Rate Discount). Eligible customers will have the two options available to them. In addition, the RNG adder is available to eligible customers on top of the two incentive options. Proposed incentives would be funded by SoCalGas' shareholders and recovered over the course of the contract term.[16]

The maximum One-Time Payment Incentive or Rate Discount will be determined as follows:

- Establishing the customer's baseline load by calculating the customer's average consumption for the previous 24 months;
- Estimating the net incremental load (above the baseline load) given the customer's usage history and planned future activities and needs. The net incremental load only includes the load associated with the CIP technology[17];
- Determining the incremental revenue based on the net incremental load; and
- Calculating the maximum incentive/discount based on the amount of incremental revenue.

### C. Program Controls to Protect Ratepayers and Prevent Free Riders[18]

The CIP has several program controls in place to protect ratepayers and to prevent free riders.

- Economic Analysis and Affidavit: Customers must show that the proposed incentive/discount is a material factor for completing the project. To do so, SoCalGas will perform an economic analysis on each project to determine its simple payback time.[19] SoCalGas will also require all participating customers to sign an affidavit attesting that the incentive was a material factor in committing to the project.

[15] See generally, Ex. SCG-02, pp. 5-7.
[16] Ex. SCG-02, p. 5, ln. 5-9.
[17] Ex. SCG-05, p. 4, ln. 13-15; Transcript Vol I (T.Nguyen), p. 101, ln. 3-5; Transcript Vol. II (T.Nguyen), p. 144, ln. 4-6, p. 146, ln. 8-10.
[18] See generally, Ex. SCG-02, pp. 7-9.
[19] A detailed discussion of the payback analysis can be found in Section IV.A.2.b., below, and Ex. SCG-02, p. 7, ln. 7-18.

- Minimum Annual Quantities (MAQ): The customer must agree to specify in the contract a minimum amount of natural gas that they must consume. The MAQ is set at an amount less than what the customer represents to SoCalGas they expect to use.[20] To confirm that the customer does not mispresent their planned usage in order to free ride off the CIP, the customer must meet the MAQ each year or face an adjustment to the incentive.[21]

- Contract and Contract Term: SoCalGas will require customers to enter into a contract with a term up to but not exceeding 59 months. During this contract term, SoCalGas' shareholders will recover their investment by collecting 100% of the incremental transmission revenues from the project. At the end of the contract, the incremental transmission revenues will revert to ratepayers for the remaining life of the equipment, which is expected to be on average 20 years, according to ASHRAE.[22]

- Public Purpose Program (PPP) Surcharge: SoCalGas will commit to make whole the PPP surcharge resulting from the expected incremental gas load associated with the CIP technology during the length of the contract. As SoCalGas is only discounting and receiving the incremental transmission revenue during the contract term, ratepayers are expected to benefit from increased PPP surcharge revenue. Any shortfall from the contracted expected PPP surcharge growth will be funded by SoCalGas shareholders.

- Cost of Administration of the CIP: The cost of developing and administering the CIP will be borne by shareholders.[23]

**D. Regulatory Procedures and Process**

SoCalGas will provide periodic reporting to the Commission to provide the Commission with the information needed for ongoing oversight and to direct any adjustments the Commission may deem necessary. SoCalGas proposes to continue the annual reporting process that is currently in place for the Current Programs via a Tier 2 advice letter and will work with Commission staff in identifying any processes that may assist in their review process.[24]

[20] See discussion in Section IV.A.1.c.i., below.
[21] Ex. SCG-02, p. 8, ln. 1-19.
[22] See SCG-06, ASHRAE Equipment Life Expectancy Chart.
[23] Ex. SCG-03, p. 5, ln. 13-17; SCG-05, p. 13, fn. 49.
[24] Ex. SCG-02, p. 11, ln. 13-19.

## IV. ARGUMENT

SoCalGas responds to the questions posed by the Scoping Memo and Joint Ruling of Assigned Commissioner and ALJs issued on July 19, 2017 below.

### A. Scoping Questions.

#### 1. Should the Commission reauthorize SoCalGas' Customer Incentive Program?

Yes.

#### a. Is the Application fully and satisfactorily addressing the Commission's concerns as expressed in Resolution G-3515?

Yes. In Resolution G-3515, the Commission raised the following questions regarding the program:

- Whether these programs remain consistent with legislation that has been enacted subsequent to the Programs' institution and current Commission policy;
- Whether the shareholder/ratepayer split of incremental net revenue from the Core Pricing Flexibility Program is consistent with D.98-01-040;
- Whether the adjustment mechanism for crediting base revenue to the Core Fixed Cost Account (CFCA) is reasonable; and
- Whether there are sufficient mechanisms to deter free riders.

SoCalGas addresses each of these questions in the respective Sections below.

#### b. Does the proposed Customer Incentive Program support current California state policies?

Yes. The CIP supports the legislative intent of existing laws and State energy policies.[25] For example, Senate Bill (SB) 350 calls for increased energy efficiency which requires the State to double statewide energy efficiency savings in electricity and natural gas end uses by 2030.[26] Additionally, Public Utilities Code (PUC) Section 740.8(b) requires the reduction of health and environmental impacts from air pollution or the reduction of GHG emissions related to electricity and natural gas production and use.[27] The CIP is designed to support SB 350 and

[25] See Ex. SCG-01, pp. 1-4.
[26] Ex. SCG-04, p. 2, ln. 20-22.
[27] Ex. SCG-04, p. 2, ln. 22-24.

PUC § 740.8(b) by requiring customers to save energy or reduce emissions.[28] In addition, the CIP's RNG adder is designed to support GHG reduction goals in SB 1383.[29]

No party has disputed that the CIP provides energy efficiency benefits. No party has disputed that the CIP provides reductions in GHG emissions and/or criteria air pollutants emissions. Instead, Southern California Generation Coalition's (SCGC) response to this question narrowly focuses on CHP (only one technology eligible for the CIP) while ignoring other technologies and argues that "[p]romoting CHP undermines existing state policy regarding renewable resources."[30] SCGC has not taken issue with the CIP for technologies other than CHP. The Office of Ratepayer Advocates (ORA) argues that the "CIP does not support current State policies to the extent that the proposed CIP provides incentives to shareholders for increasing gas throughput on the SoCalGas system, without any evidence of corresponding compelling energy efficiency benefits attributable to the program."[31]

**i. Onsite CHP Provides Energy Efficiency Benefits**

SCGC argues that promoting CHP, which in turn increases baseload resources, conflicts with State policy regarding the need to take increasing levels of renewable resources.[32] SCGC's argument is based on the incorrect assumption that the onsite CHP incentivized by the CIP will oftentimes sell electricity back to the electric grid and be net producers.[33] In reality, most onsite CHPs do not sell electricity back to the electric grid.[34] As of November 2015, only six CHPs in all of California have been certified under Assembly Bill (AB) 1613 and only two have interconnected.[35] There is no evidence in the record that more onsite CHPs will sell electricity to the electric grid as a result of the CIP.

In fact, as SCGC's witness admits, if an onsite CHP does not sell electricity back to the electric grid then it would not increase baseload.[36] Furthermore, for every hour that the onsite CHP is running, it will displace on-grid electricity.[37] This is important since based on

[28] Ex. SCG-04, p. 2, ln. 24-26.
[29] Ex. SCG-01, p. 3, ln. 8-17.
[30] Ex. COA-1, p. 4, ln. 6.
[31] Ex. ORA-01, p. 31, ln. 19-23.
[32] Ex. COA-1, p. 4, ln. 6, 11-12.
[33] Transcript Vol. II (C.Yap), p. 197, ln. 17-26.
[34] Ex. SCG-01, p. 6, fn. 16.
[35] *Id*.
[36] Transcript Vol. II (C.Yap), p. 198, ln. 7-26.
[37] Transcript Vol. II (C.Yap), p. 209, ln. 26 – p. 210, ln. 8.

California's loading order, fossil fuel generation is the last resource to be called upon to provide electricity.[38] This means that onsite generation typically displaces fossil fuel generation on the electric grid.[39] Based on a conservative estimate of average efficiency for onsite CHP being at least 65% as compared to the average efficiency of natural gas generation on the electric grid being around 40% over the past several years, the higher efficiency of onsite CHP should result in an overall decrease in gas usage.[40]

SCGC also argues that by promoting onsite CHP including those that do not sell electricity to the grid, it would decrease expected minimum net load which would contribute to further curtailment of renewable resources during certain hours.[41] However, SCGC's witness admits that renewable resources are not curtailed every hour that an onsite CHP is running.[42] On the other hand, for every hour that the onsite CHP is running, it will displace on-grid electricity.[43] Moreover, SCGC's witness admits that electric energy efficiency measures will similarly decrease expected minimum net load[44] and therefore electric energy efficiency measures would similarly lead to curtailment of renewable resources during certain hours. SCGC's witness further admits that where an onsite CHP does not sell electricity back to the electric grid, the onsite CHP will decrease expected minimum net load on the electric grid more than an electric energy efficiency measure.[45] Clearly, onsite CHP provides energy efficiency benefits, and according to SCGC's witness, may provide energy efficiency benefits that exceed that of electric energy efficiency measures.[46]

**ii. CIP Provides Energy Efficiency and/or GHG/Criteria Air Pollution Benefits**

ORA is incorrect in contending that the CIP provides incentives to SoCalGas' shareholders for increasing gas throughput on SoCalGas' system, without evidence of corresponding compelling energy efficiency benefits.[47] There is no evidence that the CIP will

[38] Ex. SCG-05, p. 2, ln. 7-9.
[39] *Id*.
[40] Ex. SCG-05, p. 2, ln. 4-7, 9-12.
[41] Ex. SCG-09, pp. 2-3 [SCGC's Response to SoCalGas' Data Request No. 1, Question 2]; COA-1, p. 5, Figure 1.
[42] Transcript Vol. II (C.Yap), p. 210, ln. 28 – p. 211, ln. 14.
[43] Transcript Vol. II (C.Yap), p. 209, ln. 26 – p. 210, ln. 8.
[44] Transcript Vol. II (C.Yap), p. 198, ln. 27 – p. 199, ln. 12.
[45] *Id*.
[46] *Id*.
[47] Ex. ORA-01, p. 31, ln. 19-23.

increase gas throughput on SoCalGas' system. As explained in response to Scoping Question 1. c., below, SoCalGas anticipates that with the modifications incorporated into the CIP, the net effect of the CIP will be a decrease in natural gas throughput as compared to what customers would have chosen to do without the CIP.[48]

Even if the CIP increases gas throughput on SoCalGas' system, it is undisputed that the CIP provides energy efficiency and/or reduces GHG and criteria air pollution emissions. ORA asserts that since the CIP increases gas throughput, the CIP must provide compelling energy efficiency benefits.[49] When asked how ORA defines "compelling", ORA responded, in relevant part: "ORA uses the term 'compelling' based on its plain meaning which could range from 'forceful and persuasive' to 'forceful and convincing,' or to 'not able to be refuted.'"[50] As discussed above, the CIP provides energy efficiency benefits. No party has provided any evidence to refute this fact. Instead, ORA refers the Commission to the data SoCalGas reported for the Current Programs. ORA concludes that since the Current Programs do not have information as to energy efficiency, except for five customers, that the CIP will not provide energy efficiency benefits.[51] ORA incorrectly conflates the CIP with the Current Programs in several ways.

First, the CIP is a modification to the Current Programs. The modifications contained in the CIP added four specific alternative mandatory criteria that did not exist as part of the Current Programs: three energy efficiency eligibility criteria and a GHG/criteria air pollution reduction criteria.

Second, while three out of the four criteria require a customer to show that the technology is energy efficient, the fourth criterion may also provide energy efficiency benefits. Energy efficiency is not mandatory under the fourth criterion because that criterion is intended to reduce GHG and criteria air pollutants emissions, namely from diesel and propane equipment. ORA states that they are supportive of switching from dirty fuel to cleaner fuel.[52]

[48] See discussion in Section IV.A.1.c, below.
[49] Ex. ORA-01, p. 37, ln. 1-4.
[50] Ex. SCG-07, p. 5 [ORA's responses to SoCalGas' Data Request Question 1(a).]
[51] Ex. ORA-01, p. 34, ln. 11-18.
[52] Ex. ORA-01, p. 24, ln. 23-24.

Third, as part of the Current Programs, SoCalGas was not required to project energy efficiency savings until Resolution G-3515 was issued, which ORA clearly recognized.[53] Simply, because SoCalGas did not project energy efficiency savings for a prior project does not mean that the prior project did not provide energy efficiency savings. For example, SoCalGas provided estimated energy efficiency benefits from cogeneration projects for 2014-2016.[54] The information, which ORA referenced in its testimony, shows that for 2014 the energy efficiency benefits from cogeneration alone was 3,716,006 therms, 2,731,006 therms for 2015, and 1,895,565 therms for 2016.[55] Based on this information, ORA incorrectly interprets these therm savings by stating that "there could be in theory a therm of energy efficiency benefits from cogeneration projects for every 3.33 therms of increased gas consumed."[56] In actuality, for every therm used on a customer site, in theory, there could be 1.3 therms saved overall.

In addition, based on the estimated average of 2,780,859 therm reduction, the corresponding reduction in CO2 per year for the cogeneration projects alone is 14,758,019 kg.[57]

**c. If the Customer Incentive Program is reauthorized, will it increase load growth?**

SoCalGas anticipates that the net effect of the CIP will be a decrease in natural gas throughput as compared to what customers would have chosen to do without the CIP. Energy efficiency is a mandatory requirement for three of the four eligibility criteria.[58] While the fourth criterion may result in energy efficiency, it is not mandatory since the criterion is intended to reduce GHG emissions or criteria air pollutants.[59] SoCalGas does not anticipate emissions reduction based projects to outnumber energy efficiency based projects.[60] No party has provided any forecast or load analysis to indicate that the CIP will increase net natural gas throughput. ORA asserts that the increased gas consumption from the Current Programs is by no means insignificant based on the incremental volumes for the Current Programs dating back to 2010.[61] However, as explained above, ORA conflates the Current Programs with the CIP which added

[53] Ex. ORA-01, p. 34, ln. 20 – p. 35, ln. 2.
[54] Ex. ORA-01, p. 23.
[55] *Id*.
[56] Ex. ORA-01, p. 23, ln. 1-3.
[57] Ex. SCG-05, p. 3, ln. 1-2.
[58] Ex. SCG-05, p. 1, ln. 13.
[59] Ex. SCG-05, p. 1, ln. 13-15.
[60] Ex. SCG-04, p. 4, ln. 3-5.
[61] Ex. ORA-01, p. 27, ln. 3 – p. 4.

new energy efficiency eligibility criteria. Further, ORA fails to recognize that the incremental volumes represented in that chart do not take into account the amount of gas load that would have been consumed by less efficient equipment or the amount of gas load that was displaced off of the electric grid.

ORA's and SCGC's other argument that the CIP will necessarily increase gas load is based on mere speculation and an incorrect assumption that there will be load growth because that is how SoCalGas will make its money.[62] Both SCGC and ORA mischaracterize and fail to properly understand the purpose and mechanism of the MAQ.

**i. The MAQ is a Program Control to Prevent Free Riders, Not a Mechanism to Increase Gas Load.**

As explained by SoCalGas, the MAQ is a program control to deter free riders. As a term for receiving the CIP incentive, the customer must agree to specify in the contract a minimum of natural gas that they must consume. The MAQ is the amount of therms that an eligible customer must consume each year of the contract or face an adjustment to the incentive.[63] The adjustment to the incentive includes returning the incentive plus paying SoCalGas' rate of return.[64] The MAQ requires the customer to operate the technology in accordance with how the customer represented to SoCalGas the technology would be operated in order to obtain the incentive.[65] The MAQ is an additional risk that the customer must accept in order to receive the incentive.[66]

The MAQ is not a mechanism to increase gas load. The MAQ is calculated based on what the customer represents to SoCalGas the customer expects to use and SoCalGas negotiates a MAQ below that amount. In calculating the MAQ, the first input is the cost of the contract.[67] The cost of the contract is capped at the maximum incentive/discount based on the amount of incremental revenue.[68] The maximum incentive/discount is calculated based on the net incremental load (or the total expected load associated with the CIP technology).[69] Therefore, the MAQ will not be set above the total expected load associated with the CIP technology.

[62] Ex. COA-01, p. 7, ln. 1-2; Ex. ORA-01, pp. 37-39.
[63] Ex. SCG-02, p. 8, ln. 1-19.
[64] Ex. SCG-02, p. 8, ln. 11-19.
[65] Transcript Vol. I (T.Nguyen), p. 94, ln. 23-28.
[66] Transcript Vol. I (T.Nguyen), p. 95, ln. 2-5.
[67] Ex. SCG-02, p. 8, ln. 4-5.
[68] Ex. SCG-02, p. 5, ln. 18-19.
[69] Transcript Vol. II (T.Nguyen), p. 144, ln. 3-6; Ex. SCG-05, p. 4, ln. 13-15.

Further, ORA is incorrect in asserting that the MAQ adjustment is a disincentive for customers to consume less gas than the MAQ and may lead to customers using the technology in a less efficient manner in order to avoid paying back the CIP incentive.[70] Based on the design of the CIP, it would be more costly for a customer to operate the CIP technology inefficiently or to consume more gas simply to meet the MAQ than to pay the MAQ adjustment.[71] The incentive payback is calculated based on the transportation revenue plus the SoCalGas authorized rate of return, which is currently approximately 8%.[72] On the other hand, by using more gas, the customer will have to pay not only the transportation cost but also the commodity charge, the PPP surcharge, taxes and fees.[73] Just paying the commodity charge alone equates to 118% penalty versus paying SoCalGas' approximate 8% authorized rate of return.[74] The 118% penalty does not even include the PPP surcharge, taxes or fees. As such, it would be more economical for the customer to pay back the MAQ adjustment than to use more gas in order to meet the MAQ.[75]

Finally, ORA's and SCGC's contention that the fact that the MAQ is always set above the baseline load is proof that the CIP will incentivize increased gas usage is a red herring.[76] The baseline load is irrelevant for the purpose of determining whether the project will increase gas load. The baseline load simply refers to the customer's average consumption for the previous 24 months. In order to determine whether the project will increase gas load, the CIP project must be compared against what the customer would do but for the CIP. For example, a customer intends to expand her business and install a furnace. She has two options: (1) install a more efficient but more costly furnace; or (2) install a less costly, less efficient furnace. Regardless of whether the customer installs the more efficient technology with the CIP incentive or the less efficient technology without the CIP incentive, the gas consumption at the customer site would increase. However, if the customer installs the more efficient furnace with the CIP incentive, any increase

[70] Ex. ORA-01, pp. 37-38.
[71] Ex. SCG-05, p. 3, ln. 14 - p. 4, ln. 5.
[72] Ex. SCG-05, p. 3, ln. 19 - p. 4, ln. 4.
[73] Ex. SCG-05, p. 3, ln. 20 - p. 4, ln. 2.
[74] Ex. SCG-05, p. 4, ln. 2-4.
[75] Ex. SCG-05, p. 4, ln. 4-5.
[76] Ex. COA-1, p. 7, ln. 1-2; Ex. ORA-01, p. 38, ln. 17-21.

in load at the customer's site will be at least 10% less than it would have been had the customer installed a less efficient technology.[77] Therefore, the net effect is a decrease in gas load.

**d. If the reauthorized Customer Incentive Program will increase load growth, will the additional growth reduce system reliability?**

No. SoCalGas does not anticipate any increased load growth associated with the CIP as compared to what customers would have chosen to do without the CIP. To the extent there is any potential slight increase, SoCalGas does not anticipate this potential increase in gas consumption to exacerbate current reliability concerns as the increase would be de minimis.[78]

SCGC and ORA cite to numerous communications and press releases related to Aliso Canyon. Based on SCGC's and ORA's incorrect assumption that the CIP will necessarily increase load, they extrapolate that the CIP will further reduce system reliability. However, neither party provided any substantiated evidence that the CIP will increase load growth. Further, even if the CIP increases load growth, neither SCGC nor ORA provide an estimate of how much load growth would occur and whether that amount of load growth would reduce system reliability. There is no evidence in the record to find that the CIP will necessarily increase load growth or that any load growth from the CIP will reduce system reliability.

On the other hand, SoCalGas met its burden through evidence that the CIP would not materially impact reliability. SoCalGas provided testimony that it anticipates the net effect of the CIP will be a decrease in natural gas throughput as compared to what customers would have chosen to do without the CIP.[79] Moreover, SoCalGas provided testimony that even if the CIP resulted in a slight increase in gas consumption, the increase would be de minimis.[80] SoCalGas calculated the Current Programs average annual load for the prior three years at 25 million therms.[81] This estimate is in the high range since it does not take into account the reduction of overall gas load from less efficient equipment and from the electric grid.[82] Further, SoCalGas expects that participation in the CIP will be lower than the Current Programs as a result of the more stringent requirements in the CIP.[83] Twenty-five million therms per year amounts to

[77] Ex. SCG-05, p. 3, ln. 9-12.
[78] Ex. SCG-05, p. 6, ln. 10-11.
[79] See discussion in Sections IV.A.1.b.i. and IV.A.1.c.
[80] Ex. SCG-05, p. 6, ln. 9-10.
[81] Ex. SCG-05, p. 6, ln. 11-15.
[82] Ex. SCG-05, p. 7, ln. 1-2.
[83] Ex. SCG-05, p. 6, ln. 15-17.

approximately 0.2% of the total throughput.[84] To put this into further perspective, the throughput from the Current Programs would be 68,493 therms/day.[85] For the past 12 months, the highest throughput on SoCalGas' system occurred in January 2017 and the lowest occurred in April 2017.[86] During this timeframe, the average daily variation in natural gas load in January was ±2,804,000 therms and the daily average variation in natural gas usage for April was ±1,085,517 therms.[87] This means that just the average daily load fluctuation has over 15 times more impact on SoCalGas' system than the historical equipment load from the Current Programs.[88] Clearly, any impact of the *potential* increase in natural gas load from the CIP, if any, is relatively small as compared to the daily or seasonal variation on the overall system.

**2. Are the proposed incentives duplicative of, overlapping with, or complementary to incentives offered by other programs?**

The CIP is not duplicative or overlapping with other programs. There are a number of technologies that may be eligible for the CIP that are not eligible for the Self Generation Incentive Program (SGIP) or the Distributed Energy Resources (DERS) Tariff. For example, steam systems, furnaces, boilers, crucibles, and other industrial type equipment may be eligible for the CIP and not be eligible for SGIP or DERS.[89] In addition, the CIP may complement other programs by filling and/or bridging the gap left by underutilized programs. For example, in certain cases, technologies such as CHP may only meet one component of SGIP such as system efficiency, but may be short on RNG usage, thereby disqualifying the technology from SGIP.[90] However, because the same technology meets FERC requirements, it would qualify for the CIP, motivating the customer to invest in that technology.[91] The CIP in this case fills the gap that is left behind by other underutilized incentive programs.

The CIP may also bridge the gap that is left behind by underutilized incentives. For example, if a particular program's incentive alone is not enough to incentivize a customer to act because the payback period or incentives are not sufficient to meet the customer's investment

[84] Ex. SCG-05, p. 6, ln. 17 – p. 7, ln. 1.
[85] Ex. SCG-05, p. 7, ln. 3-4.
[86] Ex. SCG-05, p. 7, ln. 4-6.
[87] Ex. SCG-05, p. 7, ln. 6-8.
[88] Ex. SCG-05, p. 7, ln. 8-10.
[89] Transcript Vol. I (T.Nguyen), p. 83, ln. 8 – p. 84, ln. 18.
[90] Ex. SCG-05, p. 8, ln. 18 – p. 9, ln. 1.
[91] Ex. SCG-05, p. 9, ln. 1-3.

return criteria (e.g. SGIP), then the addition of the CIP incentive may lead the customer to invest in technology that has higher efficiency and lower emissions.[92] While a customer may be eligible for funding from both the CIP and SGIP, this does not conflict with the goal of CIP which is to enable the industry to bring efficient, clean technologies to market. As SoCalGas noted, since the new requirements have been in effect for SGIP, SoCalGas has received no CHP SGIP application to date.[93]

SCGC does not contend that the CIP is overlapping with existing programs.[94] ORA merely alleges that "it is possible" that the CIP is duplicative, overlapping or complementary to existing programs.[95] ORA was unable to identify and provide any details concerning any specific program, eligibility requirement, technology application, or program mechanics that ORA contends the CIP is allegedly duplicative of, overlapping with or complementary to.[96] ORA is only able to determine that the CIP is similar to other programs in its intent which is to provide energy efficiency.[97]

**a. Are the program components, such as a proposed increase in energy efficiency standards, consistent with similar components in programs such as the Self Generation Incentive Program and the SoCalGas Distributed Energy Resources Tariff?**

The CIP's program components are consistent with and similar to SGIP and DERS but are not identical. As stated above, one of the purposes of the CIP is to fill the gap left behind by underutilized programs and another purpose is to bridge the gap to these underutilized programs. To require that the CIP have the same eligibility requirements as SGIP and DERS will defeat these two purposes. Further, the CIP is different from SGIP and DERS.

The CIP program is "designed to support the State's effort to transform California's energy economy to cleaner solutions, to give consumers cleaner and more efficient energy technology choices, and to improve the State's energy resilience." The CIP is a shareholder program aimed to incrementally increase energy efficiency and promote and encourage the

[92] Ex. SCG-05, p. 9, ln. 11-15.
[93] Ex. SCG-04, p. 7, ln. 8-9.
[94] Ex. COA-1, p. 10, ln. 23-24.
[95] Ex. ORA-01, p. 40, ln. 18-19.
[96] Ex. SCG-07, pp. 7-8 [ORA's Response to SoCalGas' Data Request No. 1, Question 3]; SCG-08, pp. 7-8, [ORA's Response to SCG Follow-up Data Request Regarding Question 3]; Transcript Vol. II (P.Sabino), p. 185, ln. 6 – p. 188, ln. 2.
[97] Transcript Vol. II (P.Sabino), p. 185, ln. 20-23, p. 187, ln. 23-24, p. 187, ln. 28 – p. 188, ln. 2.

development of energy efficient technology in the market.[98] The SGIP, on the other hand, is a ratepayer program focused on GHG reductions, and imposes emissions and renewable fuel blending requirements that preclude some energy efficient power generation technologies such as CHP from participating.[99] The CIP supports the need for faster adoption of energy efficient gas technologies by capturing energy efficiency opportunities that SGIP misses -- all at zero-cost and zero-risk to ratepayers.[100]

Further, the SGIP GHG emissions calculations are flawed.[101] The SGIP emissions calculation uses two incorrect weighting factors. First, baseload plants were more heavily weighted than peaker plants, which artificially increased the grid efficiency by 5%. Secondly, the Build Margin was given an incorrect weighting factor of 50%. As a result, the 2016 SGIP GHG emission factor was incorrectly lowered to 350 kg CO2/MWh. Under more appropriate calculations, the GHG emissions factor would have been closer to 434.96 kg CO2e/MWh.[102]

Likewise, CIP is different than the DERS Tariff. Under the DERS Tariff, SoCalGas owns, operates and maintains the equipment.[103] The customer would lease the equipment from SoCalGas and pay for its operation and maintenance on a monthly basis.[104] Whereas the CIP program incentivizes customer-owned equipment providing customer choice.[105] SCGC recommends that the Commission impose a 20 MW size limitation for CHPs similar to the size limitation in the DERS Tariff contending that the compelling issues presented in the DERS Tariff is similarly applicable to the CIP.[106] As SoCalGas explains, there are a number of key differences between the DERS Tariff and the CIP. First, the DERS Tariff was developed to offer customers a new, utility-owned CHP system option with a bigger focus on the untapped potential of the smaller, under 20 MW, CHP market.[107] On the other hand, the CIP is designed with a focus on providing customers in the broader customer-owned CHP market, including those

[98] Ex. SCG-05, p. 9, ln. 21 – p. 10, ln. 5.
[99] Ex. SCG-05, p. 10, ln. 1-3.
[100] Ex. SCG-05, p. 10, ln. 6-8, p. 13, ln. 5.
[101] Ex. SCG-05, p. 10, ln. 9.
[102] Ex. SCG-05, p. 10, ln. 9-15.
[103] Ex. SCG-04, p. 6, ln. 18-19.
[104] Ex. SCG-04, p. 6, ln. 25-26.
[105] Ex. SCG-02, p. 11, ln. 5-6.
[106] Ex. COA-1, p. 2, ln. 28 – p. 3, ln. 2, p. 14, ln. 21.
[107] Ex. SCG-05, p. 11, ln. 6-8.

systems over 20 MW, the support to elect more efficient technology options.[108] Second, in limiting the DERS Tariff, which was an entirely new offering permitting utilities to own CHP projects, the CPUC noted that "[g]aining more needed experience and applying 'lessons learned' with similarly structured SoCalGas initiated programs will enable more success in the longer term."[109] The CIP, however, is based on experience with similar programs SoCalGas has been offering customers.[110] While the DERS Tariff opens up a new market of utility owned CHP, which requires time to learn about ownership of CHP, the CIP program is designed to support customer-owned project structures that have existed for years, and increase the amount of customer-owned technology options available to customers.[111] A cap of 20 MW reduces the potential opportunities available to customers and limits the benefits that an energy efficient CHP unit can provide.[112] As such, the proposed CIP can and should be offered to customers interested in CHP projects of all sizes.[113]

In addition, SCGC refers the Commission to the Edison Electric Institute's comments in a FERC rulemaking that argued for a 60 percent efficiency standard for new cogeneration facilities primarily fueled by natural gas.[114] It is unclear whether SCGC is advocating for the Commission to adopt this requirement for the CIP. If SCGC is arguing for such a requirement to be added to the CIP, the Commission should deny the request similar to how FERC denied the request in its proceeding.[115] In that proceeding, FERC found the EPA's comments on the matter persuasive. FERC found:

> We find persuasive the EPA comments that there is little, if any, need to alter existing PURPA criteria or processes. The EPA states that CHP (combined heat and power) remains one of the most significant opportunities to improve the efficiency and reduce the environmental impact of United States energy production and it is critical that this rulemaking advance, not constrain, these opportunities. The EPA further states that since CHP systems are inherently more efficient than the alternative (separate heat and power generation) they always

[108] Ex. SCG-05, p. 11, ln. 8-11.
[109] Ex. SCG-05, p. 11, ln. 12-15.
[110] Ex. SCG-05, p. 11, ln. 15-16.
[111] Ex. SCG-05, p. 11, ln. 16 – p. 12, ln. 1.
[112] Ex. SCG-05, p. 12, ln. 1-2.
[113] Ex. SCG-05, p. 12, ln. 2-3.
[114] Ex. COA-01 p. 11, ln. 16-22.
[115] FERC, Docket No. RM05-36-000, Order 671 (February 2, 2006), slip op, pp. 37-38.

improve total efficiency, reduce fossil fuel consumption, and therefore advance the objectives of EPAct 2005.[116]

As a result, FERC rejected EEI's recommendation and retained the existing operating and efficiency standards (42.5 percent) for new cogeneration facilities.[117]

**b. Is the program properly designed to deter free riders?**

Yes. SoCalGas has program controls in place to deter free riders.[118] SoCalGas will conduct an economic analysis to determine if the project has over a three-year payback.[119] According to a report by ICF International, Inc., projects exceeding a three-year payback are 60% less likely to come to fruition.[120] Accordingly, SoCalGas will compare the extra cost of energy efficient equipment to a standard piece of equipment and the savings that would occur.[121] If the value of the energy savings is not sufficient for the customer to make up the difference in cost within three years of operation, then the technology would qualify for the CIP.[122] Customers are also required to demonstrate their qualification for the incentive funds through an individual affidavit form which requires the customer to attest that the CIP was a material factor for installing the technology.[123] The affidavit was previously approved by the Commission and requires customers to certify that the form is true and correct under penalty of perjury under the laws of the State of California.[124]

In addition to showing that the proposed incentive/discount is a material factor for completing the project, customers must also meet the MAQ. As explained in Section IV.1.c.i., above, the MAQ requirement obligates the customer to operate their technology as they represented to SoCalGas in order to realize the efficiency and emissions benefits of the technology.

ORA appears to agree that the CIP's program components could potentially serve as deterrents to free rider[125] but that a customer may be able to free ride by obtaining the incentive,

[116] *Id.*, at p. 37.
[117] *Id.*, at p. 38.
[118] See discussion in Section III.C.
[119] Ex. SCG-02, p. 7, ln. 8-18.
[120] Ex. SCG-02, p. 7, ln. 10-12.
[121] Ex. SCG-04, p. 7, ln. 18-20.
[122] Ex. SCG-04, p. 7, ln. 20-22.
[123] Ex. SCG-04, p. 7, ln. 13-15.
[124] Ex. SCG-04, p. 7, ln. 13-17.
[125] Ex. ORA-01, p. 43, ln. 21-23.

but not delivering on the benefits.[126] ORA's reasoning is flawed. A customer does not have an incentive to operate their technology in an inefficient manner because even with a CIP incentive, the customer's first cost would be higher than the less efficient alternative, since the project is required to have greater than a 3-year payback and incentives only cover up to 50% of the project cost.[127] Therefore, a customer has no incentive to incur additional costs for a CIP technology only to run it inefficiently since the recovery of the incremental capital cost would be delayed or may not be completely recovered.[128] These extra costs deter customers from obtaining a CIP technology and operating the system inefficiently.[129]

**3. Is the proposed shareholder/ratepayer split fair and reasonable?**

Yes. The shareholder and ratepayer split proposed in the CIP is fair and reasonable to SoCalGas' ratepayers as all the risk associated with the CIP is borne by SoCalGas' shareholders.[130] In addition, since SoCalGas' shareholders will also bear the cost of developing and administering the CIP, there will be no cost to SoCalGas' ratepayers.[131]

In addition, ratepayers should benefit from the expected increased revenues. Assuming a 20-year useful life technology, shareholders would earn 100% of the revenue for the first 59 months and 100% of the revenue for the remaining 181 months (15 years) would benefit ratepayers.[132] That is an approximate 25/75 shareholder/ratepayer split. Ratepayers are also provided with an added benefit of an increase to the PPP surcharge revenue for the life of the contract.[133] The added PPP revenue should benefit all ratepayers as increasing revenue should lead to decreasing rates.[134] SoCalGas' shareholders will contribute to the PPP account any shortfalls from the expected additional PPP revenue.[135]

SCGC asserts that SoCalGas' return is astounding at 463 percent.[136] However, the actual underlying numbers show the real picture which is that SoCalGas earned $12.3 million over 12

[126] Ex. ORA-01, p. 44, ln. 12-15.
[127] Ex. SCG-05, p. 12, ln. 8-11.
[128] Ex. SCG-05, p. 12, ln. 11-14.
[129] Ex. SCG-05, p. 12, ln. 7-15.
[130] Ex. SCG-04, p. 8, ln. 8-9.
[131] Ex. SCG-05, p. 13, ln. 5.
[132] Ex. SCG-04, p. 8, ln. 12-15.
[133] Ex. SCG-04, p. 8, ln. 17-19.
[134] Ex. SCG-04, p. 8, ln. 19-20.
[135] Ex. SCG-04, p. 8, ln. 17-19.
[136] Ex. COA-1, p. 3, ln. 19-21.

years, or approximately $1 million a year.[137] This is hardly an astounding amount of revenue given the potential energy efficiency and reduction of GHG and/or criteria air pollutants emissions. SCGC then arbitrarily asserts that the shareholder/ratepayer split should be set at 20/80 for the duration of the contract and 100% to the ratepayers after the life of the contract.[138] Based on SCGC's own calculation, this would have resulted in SoCalGas' shareholders receiving a negative return in five of the twelve years.[139] SCGC also fails to recognize that unlike in situations where SoCalGas earns its authorized rate of return, here, SoCalGas' shareholders take on all the risk with no guarantee that they may recover any money -- all at no risk and no cost to ratepayers.

ORA has no recommendation as to the appropriate shareholder/ratepayer split. ORA simply refers the Commission to the gross profit margin (GPM) for reference.[140] However, upon questioning, ORA was unable to identify any shareholder funded program where the Commission has applied the GPM.[141]

**4. Are the proposed cost tracking procedures and regulatory accounting treatment reasonable?**

Yes. Based on the record evidence presented by SoCalGas, it is uncontroverted that the cost tracking procedures and regulatory accounting treatment for the CIP is reasonable. No party has provided any evidence or arguments to the contrary. ORA even concedes that "the proposed tracking procedures and regulatory accounting treatment are reasonable."[142]

**a. Should the Commission approve tariff GO-CIP, which will serve as the sole and stand-alone tariff for the CIP?**

Yes. Based on the evidence in the record and the reasons stated herein, the Commission should approve the proposed tariff GO-CIP as the sole and stand-alone tariff for the proposed CIP. SoCalGas requests that the CIP be offered to new customers and that the Commission allow for customers with existing contracts under the Current Programs to be allowed to fulfill the term of their contracts. SoCalGas currently uses the Core Fixed Cost Account (CFCA) and

[137] Ex. COA-1, p. 16, ln. 18-21.
[138] Ex. COA-1, p. 16, ln. 29.
[139] Ex. COA-1, p. 17, Figure 5.
[140] Ex. ORA-01, p. 28, ln. 1-10; Ex. SCG-08, pp. 5-6 [ORA Response to SCG Follow-up Data Request Question Regarding 2(a)].
[141] Ex. SCG-07, pp. 6-7 [ORA Response to SoCalGas' Data Request 1, Question 2(a)].
[142] Ex. ORA-01, p. 48, ln. 26-27.

the Noncore Fixed Cost Account (NFCA) as separate balancing accounts for core and noncore customers, respectively, to properly allocate revenues to the respective rate classes. Those balancing accounts will continue to be used to adjust for the shareholders' incremental load revenues realized under the CIP so that the remaining balances in those accounts are accurate for proper rate distribution between core and noncore customers.[143]

**b. Should the Commission authorize closure of Rule 38, GO-ET, GTO-ET, GO-IR and GTO-IR to any new customers once a decision is issued in this Application?**

Yes. The Commission should authorize the closure of Rule 38, GO-ET, GTO-ET, GO-IR and GTO-IR to any new customers once a decision is issued in this Application. The proposed tariff GO-CIP will serve as the sole stand-alone tariff for the CIP.[144]

## V. REQUEST FOR ORAL ARGUMENTS

Pursuant to Rule 13.13 of the Rules of Practice and Procedure of the Commission, SoCalGas requests the opportunity to present oral argument before the Commission. SoCalGas may determine that oral argument is not necessary after reviewing the Proposed Decision; until that time, SoCalGas hereby request oral arguments to preserve this right under Rule 13.13.

## VI. CONCLUSION

For the reasons set forth above and the record evidence as it exists in this proceeding, SoCalGas respectfully requests that the Commission approve the CIP.

Respectfully submitted,

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[143] Ex. SCG-04, p. 9, ln. 9-18.
[144] Ex. SCG-04, p. 9, ln. 22-24.