

Application No: A.18-11-005
Exhibit No.: _____
Witness: Darren Hanway

Application of SOUTHERN CALIFORNIA GAS
COMPANY (U 904 G) to Establish a Demand
Response Program

Application 18-11-005
(Filed November 6, 2018)

CHAPTER 6

SOUTHERN CALIFORNIA GAS COMPANY DEMAND RESPONSE PROGRAM

PREPARED REBUTTAL TESTIMONY OF

DARREN HANWAY

ON BEHALF OF

SOUTHERN CALIFORNIA GAS COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

April 26, 2019

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1 **REBUTTAL TESTIMONY OF DARREN HANWAY**

2 **I. INTRODUCTION**

3 The purpose of this testimony is to respond to the direct testimony submitted by several
4 intervening parties to the Southern California Gas Company’s (“SoCalGas”) Demand Response
5 Program proceeding, Application (“A.”) 18-11-005. SoCalGas seeks approval of a suite of
6 Demand Response Pilot Programs aimed at voluntarily reducing and shifting natural gas usage
7 during system peak periods; an emerging technology program to test new gas equipment that
8 may support future DR efforts; and implementation of a winter notification campaign to engage
9 customers to reduce natural gas usage during system peak periods. My testimony will address
10 several recommendations, assertions and analyses contained in the prepared direct testimonies of
11 the Public Advocates Office (“CalPA”), Small Business Utility Advocates (“SBUA”), Nest Labs
12 (“Nest”), and EnergyHub filed on March 26, 2019.

13 **II. INCENTIVE DESIGNS ARE APPROPRIATE**

14 **A. Residential Participation Incentives Should Be Based on Performance**

15 Nest contends that the residential participation incentive of \$25 for the Space Heating
16 Load Control (“SHLC”) pilot should not be based on performance because it is complicated to
17 administer and likely to reduce participation rates.¹ Energyhub also contests SoCalGas’
18 incentive design to encourage customers to return the following winter season.² SoCalGas
19 appreciates the comments and suggestions presented by Nest and Energyhub who have extensive
20 experience in running Bring Your Own Thermostat (“BYOT”) electric DR programs across the
21 country, however, SoCalGas asserts that performance-based incentives are appropriate for the
22 applicable DR programs proposed in its application. The main concern is the impact that non-

¹ Prepared Direct Testimony of Richard Counihan on Behalf of Nest Labs, pp. 8-10.

² Prepared Direct Testimony of Erika Diamond for Energyhub, p. 7.

1 performers (participants who opt out of DR events) have in driving down the measurable therm
2 savings of the entire participant population. The current impact evaluation method compares DR
3 program enrollees against non-enrollees to determine the counterfactual therm savings during
4 events. Non-performers thus decrease the overall therm savings. Providing an incentive
5 structure that does not penalize non-performance would fail to incent actual performance and
6 decrease overall therm savings.

7 Second, the proposed budget provides for a limited number of thermostats and water
8 heaters to participate in each pilot. The program would likely be more effective if the participant
9 population was comprised of customers who are more apt to participate fully in the program.
10 The 2017-2018 Winter Load Impact Evaluation found that on average, 57% of participants fully
11 participated in events, 13% of the participants opted-out during the events, and 22% of the
12 participants opted-out before the DR event started.³ The design of the participation incentive is
13 aimed at decreasing the number of participants that opted-out before the event started, which in
14 turn is expected to increase the overall effectiveness of the program.

15 SoCalGas proposes to implement a test-and-learn approach to design incentives that
16 provide a balance between maximizing load reduction and making it easier for customers to
17 participate. If the 50% performance threshold proves not to be successful, SoCalGas is amenable
18 to adjust the following winter season's participation incentive appropriately.

19 **B. Sign-Up Incentives Are Appropriately Designed**

20 In its direct testimony, SBUA interprets non-residential incentives for the SHLC and the
21 water heater load control ("WHLC") pilots as fixed annual values depending on the equipment
22 size and if the customer participates in at least 50% of the DR events. SBUA goes on to say that

³ SoCalGas Demand Response: 2017/2018 Winter Load Impact Evaluation, p. 9.

1 this disincentivizes customers to participate later in the winter.⁴ This appears to be based on an
2 inaccurate understanding of the program incentives. The sign-up incentives based on equipment
3 size and the participation incentive are two separate incentives. The participation incentive is
4 based on actual therm savings if the customer participates in 50% of the DR events.

5 Additionally, SoCalGas will not place a limit on the number of events for the SHLC and WHLC
6 events. Participants will be stimulated to participate in as many events due to the unpredictably
7 of the weather where a mild winter may only have five events while a colder winter may see 20
8 to 30 events. Neither SoCalGas nor participants will know how many events will actually occur
9 each winter.

10 SoCalGas disagrees with CalPA's assertion that the sign-up incentives are unreasonably
11 high.⁵ The sign-up incentives serve two purposes: (1) to enroll customers into the program to be
12 able to test and participate in the pilots; and (2) entice customers to install DR-enabled devices.
13 The sign-up incentives need to be high in order to get customers to enroll in the pilots especially
14 given the lack of awareness to natural gas DR, due to its relative infancy. If there are no
15 participants, then there is nothing to test and refine for the future. SoCalGas has now enrolled
16 over 41,000 customers into its residential smart thermostat load control program based on the
17 current sign-up incentive of \$50.

18 **C. Correction of the "Free Riders" Description in the Context of SoCalGas'**
19 **Supplemental Testimony**

20 In SoCalGas' Supplemental Testimony filed on February 22, 2019, I provided the
21 definition of "free riders" as program participants who would have participated in the absence of

⁴ Direct Testimony of Paul Chernick on behalf of Small Business Utility Advocates, pp. 13-16.

⁵ Direct Testimony of Elizabeth Fox on behalf of Public Advocates Office, p. 2-2.

1 the program and the incentives.⁶ This definition closely follows the Commission’s energy
2 efficiency description of free riders as stated in the Energy Efficiency Policy Manual Version 5.⁷
3 The appropriate meaning of “free rider,” in the context as described in the Supplemental
4 Testimony, should have been more closely aligned with SBUA’s description of “non-compliant”
5 or “gamers.”⁸ It is SoCalGas’ goal in its incentive designs to not compensate participants that do
6 not intend to comply with or participate in the DR program. These customers should either be
7 removed from the program or should not be compensated.

8 Accordingly, SoCalGas corrects footnote 7 in its Supplemental Testimony to state the
9 following: “Free riders are defined as program participants who sign-up for the program but have
10 no intention of complying with or participating in DR events.”

11 **III. TIMELINE OF BEHAVIORAL MESSAGING PILOT IS APPROPRIATE**

12 **A. Rollout of Behavioral Messaging Pilot is Consistent with Schedule Issued by** 13 **the Commission**

14 In its direct testimony, SBUA accurately states that the Behavioral Messaging Pilot
15 (“BMP”) has a budget of \$0 for the 2019-2020 winter season and ramps up for the following
16 winter seasons.⁹ As stated in my direct testimony filed on November 6, 2018, SoCalGas intends
17 to partner with third parties to implement the application-based messaging and energy reports
18 and email messaging aspects of the BMP.¹⁰ It is SoCalGas’ understanding that it will take three
19 to six months for implementers to setup infrastructure related to behavioral programs including

⁶ Prepared Direct Testimony of Darren Hanway on behalf of Southern California Gas Company, p. 3.

⁷ Energy Efficiency Policy Manual, Version 5, July 2013, p. 53.

⁸ Direct Testimony of Paul Chernick on behalf of Small Business Utility Advocates, pp. 15-16.

⁹ Direct Testimony of Paul Chernick on behalf of Small Business Utility Advocates, pp. 16-17.

¹⁰ Prepared Consolidated Supplemental Testimony of Darren Hanway and Nancy Carrell Lawrence on behalf of Southern California Gas Company, pp. 18-19.

1 selecting customers to target and designing messaging templates and the setup of data transfer
2 and integration processes with SoCalGas.

3 Based on the schedule issued by the Assigned Commissioner’s Scoping Memo and
4 Ruling (“Scoping Memo”) of February 15, 2019, the Commission does not anticipate a
5 Commission Decision until December 2019.¹¹ Based on this timeline, there would not be
6 enough time for the BMP to launch for the 2019-2020 winter season and therefore the BMP
7 would be better suited to launch in the 2020-2021 winter season following a full “off-season” for
8 SoCalGas and its implementer(s) to prepare.

9 **IV. LOAD REDUCTION PILOT INCENTIVES**

10 **A. Load Reduction Pilot Incentive Example Correction**

11 CalPA’s example on incentive payout to a core customer with a reservation load
12 reduction of 100 therms per event, providing only 10% of the stated reservation value, and
13 receiving \$5,200 is not an accurate example of SoCalGas’ proposed program.¹² Using the
14 underlying assumptions provided in CalPA’s example, assuming the ten events are spread out
15 throughout the four- month winter season with three events per month for three months, and one
16 event in the fourth month, a customer committing to a load reduction of 100 therms per event
17 day would receive a lower payout if they only achieved an average reduction of 10%.

18 For the one event month, if the customer achieves ten therms (10%) savings during the
19 event, the payout for that month would be a reservation incentive of \$10 x 10% x 100 therms
20 plus a performance incentive of \$2 x 10 therms, for a total of \$120. In calculating the three
21 events per month, using the assumption that the customer achieves savings of five therms during
22 the first event, 25 therms during the second event, and no savings during the third event, their

¹¹ Assigned Commissioner’s Scoping Memo and Ruling of February 15, 2019, p. 4.

¹² Direct Testimony of Elizabeth Fox on behalf of Public Advocates Office, p. 2-5.

1 total savings would be 30 therms for the three events, or an average of 10 therms per event.
2 Their payout would be a reservation incentive of \$10 x 10% x 100 therms plus a performance
3 incentive of \$2 x 25 therms, for a total of \$150 for each three-event month. Note that under
4 these circumstances, the customer does not qualify for performance payout for the first and third
5 event because they did not meet the 10% threshold for those events.

6 Over the course of four months, this customer would receive a payout of \$120 plus 3 x
7 \$150 for a total of \$570. If this customer had achieved 100% of their committed reservation
8 savings for all four months, instead of only 10%, their payout would be a reservation incentive of
9 \$10 x 100 plus a performance incentive of \$2 x 100 for a total of \$1,200 for the one event month;
10 for the three event months their payout would be a reservation incentive of \$10 x 100 plus a
11 performance incentive of \$2 x 100 x 3 for a total of \$1,600 per month. Under these
12 circumstances, the customer would receive a total payout of \$1,600 x 3 plus \$1,200 for a total of
13 \$6,000 for the entire winter season.

14 While the primary intent for the proposed DR Pilot Programs is that the programs would
15 occur during the winter season based on when SoCalGas anticipates the need for reduction or
16 shifting of demand during system stress will be greater, however, SoCalGas believes that
17 selected pilots could also be leveraged for non-winter months should the need arise.¹³ If the
18 Commission determines it appropriate, SoCalGas could use unspent remaining funds to
19 incentivize customers to reduce load during the non-winter times during periods of system stress,
20 when practical under the circumstances.

21 **V. COST RECOVERY OF THE WDRMA AND MEOMA SUBACCOUNTS IS**
22 **APPROPRIATE IN THIS APPLICATION**

23 SoCalGas disagrees with CalPA that cost recovery of the Winter Demand Response

¹³ See Rebuttal Testimony of Paul D. Borkovich, p. 3.

1 Memorandum Account (“WDRMA”) and Marketing Education and Outreach Memorandum
2 Account (“MEOMA”) subaccounts must be addressed as part of a future proceeding that
3 addresses all costs resulting from the Aliso Canyon incident.¹⁴ As stated in Chapter 5,
4 Supplemental Testimony, Section VIII, costs associated with these DR efforts cannot be
5 attributed to one singular factor. Further, one of those factors – the ongoing restrictions on using
6 Aliso Canyon – does not stem from the safety or integrity of the facility and is not the direct
7 result of the Aliso Canyon leak. Responsibility for the conditions related to safety of the field
8 and well integrity have no bearing on DR costs incurred pursuant to a Commission-directed
9 program and activities to help support broader system reliability.

10 Additionally, as presented in Prepared Direct Testimony Chapter 4, Section II E., the
11 partial balance in the MEOMA subaccount that SoCalGas seeks cost recovery for in this
12 application is for efforts that are distinct from the summer electric system reliability messaging
13 and electricity conservation. The costs sought in this Application are for winter messaging
14 regarding natural gas conservation for the 2018-2019 winter season. For these reasons, and
15 discussed further in direct and supplemental testimony, these WDRMA and MEOMA
16 subaccount balances are appropriate for the Commission to consider for cost recovery as part of
17 this Application.

18 This concludes my prepared rebuttal testimony.

¹⁴ Direct Testimony of Crystal Yeh on behalf of the Public Advocates Office, pp. 3-2 to 3-4.