**BEFORE THE PUBLIC UTILITIES COMMISSION**

**OF THE STATE OF CALIFORNIA**

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| Order Instituting Rulemaking Concerning Energy Efficiency Rolling Portfolios, Policies, Programs, Evaluation, and Related Issues. | Rulemaking 13-11-005<br>(November 14, 2013) |

# SOUTHERN CALIFORNIA GAS COMPANY'S (U 904-G) REQUEST FOR FUNDING OF ENERGY EFFICIENCY PROGRAMS AND BUDGETS FOR 2015

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## I. INTRODUCTION

Southern California Gas Company ("SoCalGas") hereby submits its proposed 2015 energy efficiency ("EE") program plans and funding request (2015 EE Budget Filing) for approval by the California Public Utilities Commission ("Commission"). SoCalGas' 2015 EE Budget Filing is submitted pursuant to the Assigned Commissioner's Ruling and Scoping Memorandum Regarding 2015 Portfolios (Phase I of Rulemaking 13-11-005) (Scoping Memo), issued January 22, 2014, and the Assigned Commissioner's Ruling Amending Scoping Memorandum, and Providing Guidance on Energy Savings Goals for Program Year 2015 (Goals Ruling), issued March 3, 2014. As envisioned in the Scoping Memo, SoCalGas' 2015 EE Budget Filing leverages the current 2013 – 2014 program structure and funding levels, while offering program enhancements and initiatives designed to meet the dynamic energy needs of our customers.

A summary of the SoCalGas 2015 EE Budget Filing is provided in Table 1 below. Detailed technical assumptions and budgets underpinning the proposed budget are contained in the following Appendices: Appendix A – SoCalGas Budget Request Filing Summary Tables; Appendix B – SoCalGas Budget and Savings "Placemat" Tables; Appendix C – SoCalGas Savings Allocation and Funding Sources Tables; Appendix D – SoCalGas Cost-Effectiveness E3 Calculators; Appendix E – SoCalGas DEER 2014 Savings Values Adjustment Factors Table;

and Appendix F – SoCalGas Present and Proposed Revenues and Rates. Due to the volume and complexity of the Appendices, SoCalGas is making PDF and original files available at http://www.socalgas.com/regulatory/R13-11-005.shtml.

**Table 1: SoCalGas Proposed 2015 Budget ($ MM) and Projected Energy Savings (MMTh)**

| Segment | Annual Budget (2013/2014) | Annual Budget (2015) | Annual Savings (2013/2014) | Annual Savings (2015) |
|---|---|---|---|---|
| Residential | $19.6 | $19.6 | 5.4 | 4.9* |
| Commercial | $9.1 | $10.7 | 3.8 | 4.8 |
| Industrial | $14.6 | $11.2 | 12.4 | 10.5 |
| Agricultural | $2.4 | $4.2 | 1.2 | 3.5 |
| Third Party Programs | $16.9 | $16.4 | 3.6 | 3.0 |
| Codes & Standards | $0.8 | $0.8 | 3.0 | 1.7 |
| Local Partnerships | $4.8 | $4.8 | - | - |
| Other Non-Resource | $5.4 | $6.0 | - | - |
| Financing | $2.5 | $2.3 | 0.4 | - |
| EM&V | $3.7 | $3.3 | - | - |
| TOTAL** | $79.7 | $79.3 | 29.9 | 28.4 |

* Includes estimated savings level from authorized Energy Savings Assistance Program.
** Values shown do not include annualized 2015 budget for New Financing Pilots ($5.1 million) or Statewide Marketing, Education & Outreach (ME&O) approved in separate proceedings, or the budget that will be associated with the Southern California Regional Energy Network (SoCalREN). Values may not sum to totals due to rounding

As shown, SoCalGas requests maintaining a constant budget level, except for a minor reduction to the Evaluation, Measurement and Verification (EM&V) budget, relative to the amounts authorized for 2013 – 2014 in Decision (D.)12-11-015.[1] This proposal results in a

[1] D.09-09-047, Conclusion of Law 6 states "The budget for EM&V should be capped at 4% of the adopted portfolio budget." The 4 percent funding level was adopted for the 2013 – 2014 program cycle per D.12-11-015, p. 59. SoCalGas recalculates the EM&V funds to be collected in 2015 rates based on the proposed funding level, which does not contain the New Financing Pilots amounts already authorized, and a representation of the updated 2015 budget for the SoCalREN.

revenue requirement decrease of approximately $5.5 million due to funds authorized and being collected for New Financing Pilots that will be utilized, without requiring additional collections, during 2015. SoCalGas has also identified an incremental $1.8 million of funding associated with prior program cycles proposed to be refunded to ratepayers in 2015 rates to offset the $79.3 million proposed budget.[2]

In 2015, SoCalGas' comprehensive suite of EE programs and strategies will partner with its customers and is projected to generate more than 28 million therms of gross annual gas savings, avoid nearly 138,000 metric tons of carbon dioxide (CO2) emissions, and provide over $185 million in gross resource benefits to ratepayers. SoCalGas respectfully requests this Commission to support its forthcoming 2014 and anticipated 2015 enhancements to its Energy Upgrade California™ Home Upgrade Programs, and activities to provide support to schools pursuing facilities enhancements through Proposition 39 funding. SoCalGas also discusses planned innovative strategies to support the electric focus on targeting locational EE programs, and further the deployment of water-energy measures. Proposals are also made with respect to continuing programs to identify and fulfill market opportunities in the Residential HVAC and Commercial and Agricultural program sectors, and to further leverage its programs to increase penetration in residential sectors through Integrated Demand-Side Management (IDSM), among others. As part of its 2015 EE Budget Filing, SoCalGas presents a detailed showing of the requested program changes, budget, energy savings, and cost-effectiveness considerations. These are presented below and in the appendices attached hereto.

## II.
## REGULATORY BACKGROUND

On November 14, 2013, the Commission issued Order Instituting Rulemaking (R.)13-11-005, which established a proceeding to fund current energy efficiency programs through 2015,

[2] Per D.12-11-015, SoCalGas is returning the estimated uncommitted and unspent funds for the 2010 – 2012 program cycle during 2014, and already refunded the estimated uncommitted and unspent funds for prior program cycles during 2013. The additional $1.8 million proposed to be returned represents an updated amount of uncommitted and unspent funds associated with prior program cycles.

evaluate implementing a rolling portfolio cycle approach, and address various policy issues relating to energy efficiency. In Phase I of the proceeding, the Commission will address funding energy efficiency programs for program year 2015. The Commission expressed its intent relative to the 2015 portfolios as follows, "We plan to instruct administrators to file proposals in this proceeding for continuing funding for slightly modified versions of their current portfolios through 2015. We anticipate that the 2015 portfolios will largely carry forward the programs and budgets of the prior year's portfolios."[3]

On January 22, 2014, the Commission issued the Scoping Memo calling for program administrators to submit 2015 funding requests by March 3, 2014. The Scoping Memo anticipates that the 2015 portfolios will not be substantively different than the adopted 2013 – 2014 program portfolios, except in the following areas:

1. Changes to reflect the adoption of an updated energy efficiency potential and goals study, and resulting energy efficiency goals;
2. Changes to increase programs that target particular regions or customer groups [e.g., programs addressing the decommissioning of the San Onofre Nuclear Generating Station (SONGS)]; and
3. Changes to address Proposition 39.

The Scoping Memo identifies the aforementioned changes as exemplary and not necessarily exclusive to the program changes that may be requested for 2015. The Scoping Memo also offers additional areas of consideration by program administrators. For example:

- Potential to pilot bottoming cycle combined heat and power with no supplemental fuel requirements as an EE portfolio eligible measure;
- Develop a methodology to calculate a locational premium when calculating the avoided cost for energy efficiency in constrained locations;
- Develop an alternative baseline methodology consistent with D.12-05-015, Ordering Paragraph 151; and,

[3] Order Instituting Rulemaking 13-11-005, p. 6.

- Changes to the Energy Upgrade California™ Home Upgrade Program.

The Scoping Memo also provides guidance on the structure and format that administrators should use when filing for approval of their 2015 portfolios. In so doing, the Scoping Memo requests program administrators to submit the following information:[4]

- Program (and sub-program) budget requests, including total portfolio budget augmentation (or reduction) versus 2014
- Budget and Savings Tables (a.k.a. "Placemats")
- A Cost-Effectiveness showing, including:
    - E3 Calculator for each program
    - Portfolio E3 Calculator

SoCalGas, other administrators and the Commission's Energy Division (ED) Staff collaborated on the format and specific details of the filing, including budget and savings placemat table, E3 Calculators, and table formats to provide the information requested by the Commission. On February 20, 2014, ED Staff distributed the final table formats via email to program administrators. SoCalGas presents its budget request summary tables as Appendix A, budget and savings "Placemat" tables as Appendix B, and savings allocation and funding sources tables as Appendix C. In addition, SoCalGas provides its E3 Calculators as Appendix D.[5]

On March 3, 2014, Commissioner Peevey issued the Goals Ruling which amended the originally established schedule for Phase I issues and set the filing date as March 26, 2014. The revised schedule for the proceeding's Phase I issues are as follows:

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[4] The Scoping Memo did not find it necessary for administrators to submit updated Program Implementation Plans (PIPs) with their 2015 EE Budget Filings for existing programs, but noted that sufficient detail should be provided for approval of new or significantly augmented programs. The Scoping Memo directed that administrators should make PIP updates in connection with their implementation compliance filings.

[5] SoCalGas notes for purposes of performing review of the proposed 2015 budget, ED Staff requested preparation of E3 calculators for its 2013 – 2014 authorized portfolio, and the 2013 program year based on actual results for each program. For the latter, SoCalGas has complied with this request with the explicit understanding that the cost-effectiveness calculations are to be considered draft work product at this time, as they have been prepared prior to the finalization of 2013 program results that will be reported in the annual report to be submitted on May 1, 2014.

**Table 2: Revised Schedule for R.13-11-005, Phase I**

| Date | Event |
|---|---|
| 2/28/2014 | Assigned Commissioner Ruling issued on goals and potential |
| 3/17/2014 | Workshop regarding administrator filings |
| 3/26/2014 | Administrators file for 2015 funding |
| 4/4/2014 | Comments on administrator filings |
| 4/17/2014 | Reply comments on administrator filings |
| 5/13/2014 | Anticipated Proposed Decision issued on 2015 portfolio funding |
| 6/12/2014 | Anticipated Commission decision on 2015 portfolio funding |

SoCalGas, in tandem with other program administrators, held the contemplated workshop regarding the 2015 EE Budget Filing on March 17, 2014. The workshop was held at the Commission auditorium before an audience of EE program stakeholders, and accommodated additional participation through a live webinar. SoCalGas gave a presentation regarding its 2013 – 2014 portfolio composition, an explanation and preview of its proposed 2015 portfolio and preliminary budget, and explained in detail contemplated program enhancements as proposed herein. The presentation was followed by a question and answer session that provided an opportunity for stakeholder interaction and comment. SoCalGas expresses its appreciation to its stakeholder community for their attendance and involvement, and to the Commission for supporting such events.

The Goals Ruling provides guidance on how to appropriately study statewide energy efficiency potential and proposes the goals for the 2015 year. Specifically, the proposed goals for SoCalGas are as follows:

**Table 3: Commission Proposed SoCalGas Goals for 2015 (MMTh)**

| Description | 2015 Natural Gas Savings |
|---|---|
| IOU program savings goal | **21.3** |
| IOU Codes & Standards Advocacy savings goal | **1.7** |
| Total Goals | **23.0** |

As a result of the information requested in the Scoping Memo and Goals Ruling, SoCalGas presents its 2015 program plans below, including all appendices as requested by the Commission.

## III.
## THE COMMISSION SHOULD TREAT 2015 AS THE THIRD YEAR OF THE 2013-2015 FUNDING CYCLE

SoCalGas requests that the Commission redefine the current EE program cycle from 2013 – 2014 to a traditional three-year cycle consisting of the years 2013 – 2015. Treating 2015 as the third year of a program cycle is appropriate considering the similarity between the 2013 – 2014 programs and those identified in the 2015 EE Budget Filing. Furthermore, 2015 is an extension of the current 2013 – 2014 program cycle now identified as designed to transition into a new, rolling framework for EE programs beginning in 2016, as envisioned for Phase II of R.13-11-015.[6] The logical conjunction of 2015 into 2013 – 2015 would provide program administrators the flexibility to meet customer's needs. For example:

- EE Goals: Administrators would be allowed to manage programs to meet cumulative 2013 – 2015 energy savings goals.
- Fund Shifting: Administrators would be allowed to manage program funds according to the current Commission fund shifting guidelines.

[6] See R.13-11-015, p. 8.

- Budget Caps and Targets: Spending caps and target levels as established by the Commission would be considered over the 2013 – 2015 period, again enhancing flexibility in spending to meet program needs through a longer term.
- Contracting Considerations: Program cycles typically begin slowly and ramp up in activity and then wind down as programs close out. This sequence can be disruptive and present issues the "rolling cycles" concept is attempting to avoid. These conditions are likely exacerbated by a shorter program cycle. By establishing a three-year 2013 – 2015 cycle, it will allow more time for programs to gain momentum and meet objectives and energy savings goals.
- EM&V: The evaluation of three years of EE programs would allow for a broader sample size and timeframe that would render a more thorough and comprehensive evaluation to benefit future program planning.

## IV.
## THE PROPOSED CODES & STANDARDS GOALS FOR SOCALGAS DO NOT CONFORM TO COMMISSION PRACTICE

SoCalGas supports the Commission's process to evaluate California's energy efficiency potential as a basis to establish energy efficiency goals. SoCalGas reviewed the draft 2013 California Energy Efficiency Potential and Goals Study prepared by Navigant Consulting on behalf of the Commission, and is appreciative of the of consideration given to its comments and recommended adjustments. SoCalGas is generally supportive of the goals proposed in the Goals Ruling, but requests a modification as proffered below, and adoption of the goals as set forth in Table 4.

In its comments on the Administrative Law Judge's Ruling Regarding Post-2014 Energy Efficiency Goals,[7] SoCalGas had expressed concern with the modeling inputs and policy used in the formulation of the Codes & Standards (C&S) estimates. SoCalGas reiterates those concerns here. The current SoCalGas C&S goal for 2015, presented in the Goals Ruling, includes

[7] Administrative Law Judge's Ruling Regarding Post-2014 Energy Efficiency Goals, dated November 26, 2013 in Rulemaking 13-11-005

negative interactive effects from electric measures. SoCalGas is a gas-only utility and does not have an electric energy efficiency goal, nor does it offer electric measures. As such, SoCalGas should not have an artificially lower therm savings potential and reduced cost-effectiveness due to the measures installed by Southern California Edison or other electric providers that are anticipated to lower the ambient heat of a dwelling (requiring increased use of furnaces in Southern California's moderate climate).

Such an approach is not consistent with the established Commission practice on this matter. When an electric provider offers a measure that has a corresponding therm interactive effect, that electric provider receives the benefit, positive or negative, associated with that interactive effect. It does not get transferred to the corresponding gas utility, when such gas utility did not participate in offering the measure. Each utility should be accredited the energy efficiency costs and benefits associated with the actions of its own programs. This is the current Commission practice. In the 2013 – 2014 program period and previous program cycles, the Commission has relied upon C&S inputs for SoCalGas planning and reporting without interactive effects. The 2015 goals for SoCalGas should be updated to remove the interactive effects from the C&S program goal, with corresponding treatment for C&S energy savings attribution. This change would result in the following goals for SoCalGas:

**Table 4: SoCalGas Proposed Goals for 2015 (MMTh)**

| Description | 2015 Natural Gas Savings |
|---|---|
| IOU program savings goal | **21.3** |
| IOU Codes & Standards Advocacy savings goal | **4.0** |
| Total Goals | **25.3** |

Likewise, the projected energy savings associated with C&S shown in Table 1 would change from 1.7 MMTh to 4.0 MMTh, with the total portfolio energy savings changing from 28.4 MMTh to 30.7 MMTh.

## V. SAVINGS FORECAST AND COST-EFFECTIVENESS

The SoCalGas 2015 EE Budget Filing provides its customers a comprehensive set of energy efficiency programs and strategies designed to reduce the energy needs in the service territory, and is projected to generate more than 28 million therms of gross annual gas savings at a cost-effectiveness TRC level of 1.32 if the Commission adopts the recommended C&S treatment requested in Section IV, or 1.24 without that adjustment. The specific details of the SoCalGas energy savings and cost-effectiveness forecast can be found in Appendices A - D.

In preparing its energy savings forecast, SoCalGas relied upon the Database for Energy Efficient Resources (DEER 2014), which includes the upcoming July 1, 2014 implementation of California's 2013 Building Energy Standards as the basis of the forecast values for *ex ante* savings. For those measures that rely directly on DEER 2014, SoCalGas applied the specific parameter values. For those measures that rely upon non-DEER workpapers, SoCalGas made a concerted effort, in the short time available to prepare its 2015 EE Budget Filing, to update the workpaper values consistent with the methodologies employed by DEER 2014. In the 2015 EE Budget Filing, 92% of its portfolio utilizes DEER 2014, non-DEER workpapers that have been updated with DEER 2014 methodologies, and custom measures. This includes updates to all high impact measures except SCG-WPSCGNRPH120206A-Rev00 for a Tier I Process Water Boiler, which utilizes a factor approach discussed below and documented in Appendix E.

SoCalGas has refreshed the forecast for its custom portfolio to reflect the new codes in effect in 2014, as well as the dispositions received and lessons learned associated with the current *ex ante* custom project review process. As a result, the 2015 energy savings forecast takes into account the latest regulatory, market, and customer conditions.

For the remaining 8% of the portfolio, SoCalGas estimated the impact of DEER 2014 using a factor, as instructed by the Commission in the Scoping Memo.[8] SoCalGas developed the factors as an expected average reduction between DEER 2014 and DEER 2011. The methodology and rationale is set forth in Appendix E. Given the limited use of such a methodology, the Commission Staff can rely upon the *ex ante* forecast put forth by SoCalGas. Lastly, SoCalGas did not identify activities anticipated as new during program year 2015 not expected to already be covered in DEER or existing non-DEER workpapers, thus not requiring submission of new workpapers at this time (as directed by the Scoping Memo).

SoCalGas prepared E3 calculators for each program consistent with the proposed budget and savings levels. SoCalGas used the current E3 Calculator that was developed and updated by E3 under the direction of the Commission's Energy Division staff for the 2013 – 2014 Program Cycle applications. See Appendix D for the cost-effectiveness parameters and E3 Calculator results. SoCalGas is expecting that the uncertainty in key input parameters will not fluctuate to the extent that SoCalGas would not meet its goals or cost-effectiveness target.

Although the Scoping Memo only directs administrators to include "major contributing measures / offerings / estimated activities,"[9] the SoCalGas E3 Calculators do include measure level detail to provide consistency with the 2013 – 2014 portfolio, and to reflect a sufficient level of accuracy with respect to energy savings achievements for the forecast. As directed, SoCalGas also submits a "rolled up" E3 calculator for the full proposed 2015 portfolio. Since SoCalGas is proposing continuing its currently approved budget, the Scoping Memo direction for administrators increasing funding to include a sufficient "buffer" above minimum cost-effectiveness thresholds to mitigate the risk of overestimation does not apply. Pursuant to the direction provided in D.12-11-015,[10] SoCalGas sought to develop a mix of resource and non-resource programs across its customer sectors with a cost-effectiveness of 1.25 for the Total

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[8] The Scoping Memo at p.15 states "Non-DEER workpaper values used in developing portfolios shall be values already approved by Commission Staff and adjusted using factors or other approximation method to account for DEER 2014."
[9] Scoping Memo, p. 10.
[10] See D.12-11-015, pp. 99 – 100. The Decision indicated the TRC value of 1.25 should be independent of the REN and MEA programs, spillover effects, and Codes and Standards programs.

Resource Cost test (TRC) described below.

The Commission's requirements regarding cost-effectiveness analysis is summarized in the Energy Efficiency Policy Manual (EEPM), Version 5, Section IV. The EEPM directs administrators to use the TRC as the primary indicator of energy efficiency program cost-effectiveness, consistent with the Commission's intent that ratepayer-funded energy efficiency should focus on programs that serve as resource alternatives to supply-side options. The TRC test measures the net resource benefits from the perspective of all ratepayers by combining the net benefits of the program to participants and non-participants. The benefits are the avoided costs of the supply-side resources (e.g., transmission and distribution, ancillary services) avoided or deferred. In addition, the avoided cost of greenhouse gas emissions, referred to as environmental benefits, are included as part of the benefits.

TRC costs, on the other hand, include the incremental cost of the participant to install the energy efficient measures / equipment relative to the standard case and the costs incurred by the program administrator to design and manage its EE portfolio. Consistent with the direction provided for the 2013 – 2014 Program Cycle in D.12-05-015,[11] SoCalGas uses its authorized after-tax weighted average cost of capital (WACC) for the applicable discount rate in the calculation. SoCalGas notes that the E3 Calculators available for purposes of this filing contain an outdated version of the after-tax WACC of 7.38 percent, which understates the results. If SoCalGas were to substitute the current and lower after-tax WACC, the proposed portfolio would reflect a higher cost-effectiveness. The currently authorized WACC for SoCalGas is 8.02 percent per D.12-12-034, resulting in an after-tax WACC of 6.95 percent (after adjustments for federal and state tax rates).

In addition to the TRC test, the EEPM instructs administrators to consider the Program Administrator Cost test (PAC) for evaluating program and portfolio cost-effectiveness. The PAC benefits are the same as the TRC test, but costs are defined to include the costs incurred by the program administrator (including financial incentives or rebates paid to participants), but not

[11] See D.12-05-015, Ordering Paragraph 2.

the costs incurred by the participating customer. The discount rate used for the PAC test is the same as that of the TRC test.

Applying both the TRC and PAC cost-effectiveness test is referred to as the "Dual-Test". A prospective showing of cost-effectiveness using the Dual-Test at the portfolio level is required to qualify for program funding. For purposes of the calculation, Emerging Technologies Programs and On-Bill Financing loan costs are excluded, and for SoCalGas there must be a showing of the Dual-Test including the entire program portfolio collected from its ratepayers (i.e., including the SoCalREN). For the latter, SoCalGas was supplied with the proposed SoCalREN costs for its programs,[12] but is not including projected benefits as it was not possible to incorporate that information into the calculation in the time provided. Representations of the portfolio containing the SoCalREN information are thus conservative cost-effectiveness estimates. The estimated TRC and PAC ratios of SoCalGas' 2015 portfolio are shown in Table 5.

**Table 5: Summary of Portfolio Cost-Effectiveness Estimates**

| | Description | TRC | PAC |
|---|---|---|---|
| 1. | Cost-Effectiveness without SoCalREN, with C&S and Spillover * | **1.32** | **2.12** |
| 2. | Cost-Effectiveness without SoCalREN, with C&S and Spillover | **1.24** | **2.11** |
| 3. | Cost-Effectiveness with SoCalREN, with C&S and Spillover | **1.22** | **2.04** |
| 4. | Cost-Effectiveness without SoCalREN, C&S or Spillover | **1.23** | **1.64** |
| 5. | Cost-Effectiveness without Non-Resource, SoCalREN, C&S or Spillover | **1.66** | **2.52** |

* This version of C&S does not include interactive effects, as proposed by SoCalGas.

SoCalGas believes the most pertinent representation of its portfolio cost-effectiveness is shown in Table 5, Line 1, which displays the projected costs and benefits of the SoCalGas

[12] Per email dated March 14, 2014 to Southern California Edison with copy forwarded to SoCalGas. SoCalGas did not receive direction from the SoCalREN regarding adjustment associated with unspent funds, and thus did not perform any modification to the 2015 budget value provided.

portfolio, including both resource and non-resource programs, along with benefits associated with C&S and "spillover" at the 5 percent level authorized in D.12-11-015. The representation of C&S in Line 1 is consistent with the correction requested by SoCalGas in Section III, above. SoCalGas proposes a portfolio with TRC of 1.32 and PAC of 2.12 which are above the requirements set by the Commission, and representative of a portfolio that warrants authorization.

The additional values shown provide further insight regarding the proposed 2015 portfolio. Table 5, Line 2 provides the corresponding figures in the event the Commission does not adopt the SoCalGas recommended correction to C&S. Table 5, Line 3 is similar to Line 2, but including the costs associated with the SoCalREN proposal.

Table 5, Line 4 shows the cost-effectiveness of the portfolio independent of the costs and benefits associated with the SoCalREN, C&S or spillover, resulting in a TRC of 1.23. This is the value the Commission has asked Investor Owned Utilities (IOUs) to reach at a TRC level of 1.25 or greater. SoCalGas represents the projected value of 1.23, without the SoCalREN, C&S or spillover, is within the range of the 1.25 requirement, and actually is at a higher level of 1.27 when utilizing the current and lower after-tax WACC of 6.95 percent. SoCalGas believes these calculations provide a sufficient basis of assurance that the combination of its and the SoCalREN's portfolio will yield a cost-effectiveness above the minimum threshold of 1.0 for the 2015 program year.

## VI.
## 2015 PROGRAM PROPOSED BUDGET AND ENHANCEMENTS

*Proposed Budget*

In developing its proposed 2015 portfolio, SoCalGas first performed a review of its 2013 – 2014 authorized budgets, and recent performance of its programs during the 2010 – 2012 program cycle, and information currently available for 2013, the first year of the 2013 – 2014 program cycle. SoCalGas was also mindful of the Scoping Memo guidance that administrators should file proposals "of slightly modified versions of their current portfolios" and that the "2015 portfolios will largely carry forward the programs and budgets of the 2013 – 2014 portfolios."[13] The SoCalGas portfolio exceeded the Commission adopted cumulative energy savings goals for the 2010 – 2012 cycle at a TRC cost-effectiveness level of 1.25. Preliminary calculations indicate SoCalGas likewise exceeded the energy savings goal for program year 2013 at a TRC cost-effectiveness level of 1.20, including SoCalREN costs,[14] C&S, and spillover.

As shown in Table 1, just under 80 percent of the total budget is associated with a combination of Residential, Commercial / Industrial / Agricultural (or "CIA"), and Third Party Programs. SoCalGas proposes to approximately continue the same level of funding in aggregate to those program sectors. Energy savings from the SoCalGas portfolio largely come from the CIA program sectors, followed by Residential, C&S, and Third Party Programs (some of which are non-resource and not directly associated with energy savings). The relationship between budget and energy savings, associated with preliminary 2013 program year results, is shown in Figure 1 below.

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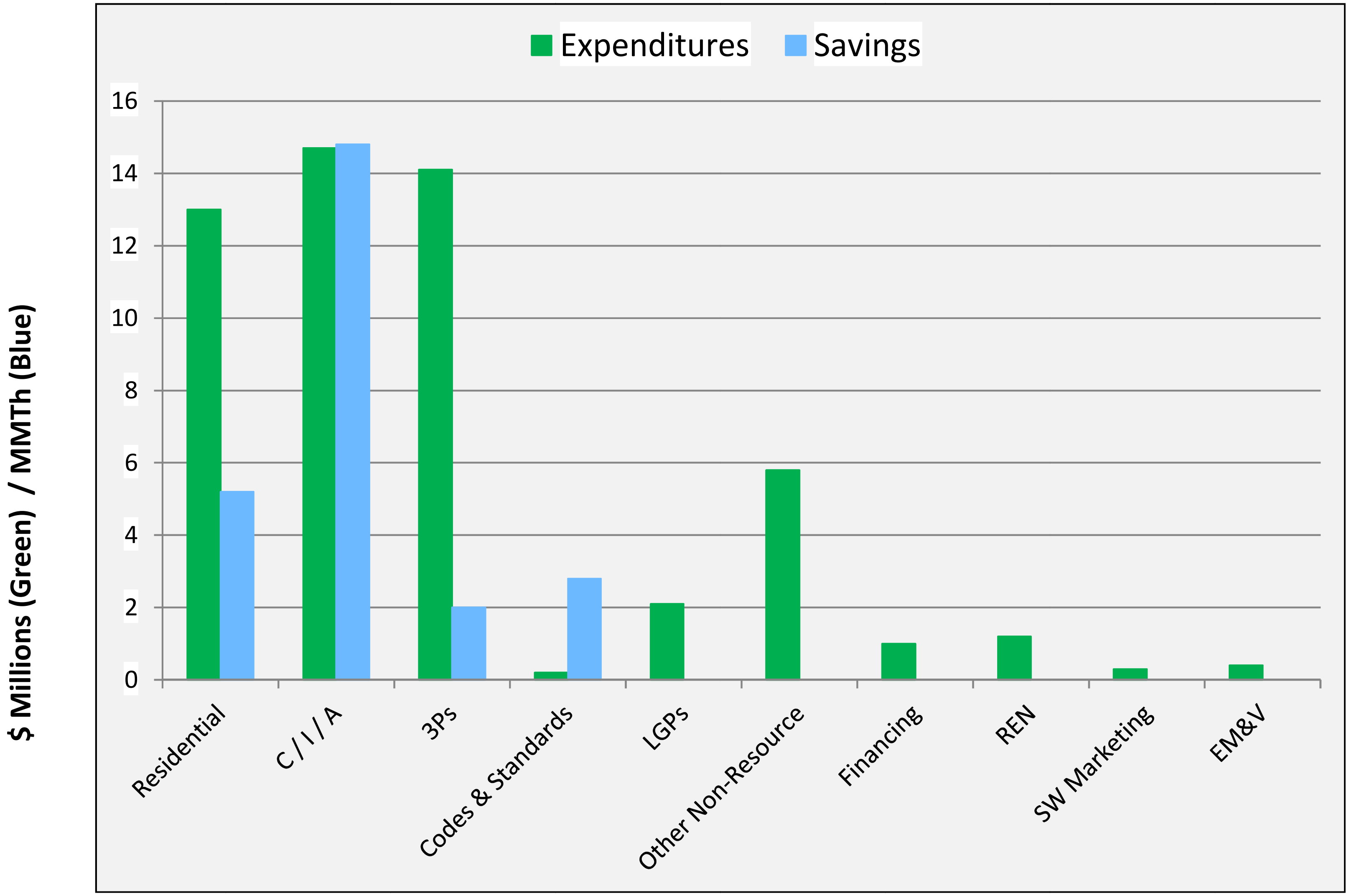
[13] Scoping Memo, pp. 9 – 10.
[14] Calculation does not include an estimate of associated program benefits.

**Figure 1: Preliminary 2013 Energy Efficiency Portfolio Actual Expenditures and Savings**[15]




[15] Values are preliminary and subject to update in the program year 2013 EE Annual Report to be filed on May 1, 2014.

Continuation of the existing authorized funding at similar levels to the program sectors is expected to allow SoCalGas to sustain these results in 2015. Informed by these results and its review of each program, SoCalGas proposes to continue its successful portfolio with a similar distribution of budget and projection of energy savings between sectors. The proposed SoCalGas 2015 EE budget requested for each program is provided in Section VII.A., Table 6.

*Program Enhancements*

SoCalGas continuously seeks to enhance its program offerings and approaches to meet the market dynamics and changes expected by customers. SoCalGas is proposing innovative and incremental program ideas, as described in this Section, for approval by the Commission to offer in 2015. In addition, SoCalGas through existing processes will seek to continue to enhance program offerings and add new measures. Such changes will be addressed through the PIP Addendum and *Ex Ante* Review processes.

It will be challenging to exceed the Commission's proposed energy savings goals given the increasing trend that customer upgrade activities are considered standard practice, and thus ineligible for program participation. As a result, SoCalGas has examined its 2013 – 2014 portfolio and realigned activities and made necessary enhancements in order to reach the new goals, without increasing funding levels. The program enhancements and modifications are discussed below.

**A. Targeting Locational Energy Efficiency Needs**

SoCalGas plans to leverage existing program resources and offerings, while partnering with electric IOUs and municipal utilities, to target transmission-constrained areas. SoCalGas believes the best avenue of implementing locational efforts would be to advance IDSM projects in such areas. A focused, comprehensive approach will reduce the energy strain on all fuels and give affected customers a widely available selection of EE to pursue. To maximize the relief to these constrained areas, the facilities that will be primarily focused on are ones that have equipment below code or industry standard practice that use both electricity and gas.

Throughout the 2013 – 2014 program cycle, SoCalGas has worked to further mature its electric and water utility partnerships focused on IDSM integration. As SoCalGas has developed a successful contract framework with municipal utilities to offer integrated projects in specific target areas, SoCalGas is in an optimal position to quickly execute agreements with other utilities in the constrained areas. Due to SoCalGas' experience of localized program implementation, SoCalGas can cost-effectively deliver programs to the affected areas.

SoCalGas will also leverage existing marketing dollars to target customers in the constrained areas and keep costs low. While the majority of this marketing will be done on a local level, SoCalGas will be actively collaborating with the California Center for Sustainable Energy (CCSE) to incorporate target-constrained areas into the statewide marketing plan. A focus of SoCalGas' local marketing would be towards customers in these regions that can pursue comprehensive projects covering multiple IDSM options. This marketing will not just be limited to EE but should address energy conservation, water management, and distributed generation options as well. Of these options, SoCalGas is also proposing investing in the incorporation of bottom-cycle Combined Heat and Power (CHP) as an EE measure in the portfolio. This is further explained in Section IV, D.3 below and would represent an additional opportunity to alleviate supply issues in energy constrained areas.

SoCalGas proposes working with stakeholders to further develop an "alternative" baseline methodology for these constrained areas. This methodology would utilize the existing customer usage as the baseline, allowing the utilities to fully capture any energy savings opportunity in the targeted locational areas. This proposal is described further in Section D.1 below. In order to augment reliability, all demand-side potential should be pursued with an all-encompassing approach for each customer in these areas.

## B. Supporting and Leveraging Proposition 39 Activities

In November 2012, California voters adopted Proposition 39 (Prop 39) – the California Clean Energy Jobs Act – which changed the corporate income tax code. As a result, beginning in fiscal year 2013-14, projected revenue began to be redirected to the General Fund and the Clean Energy Job Creation Fund. During its five-year life span, Prop 39 expects to spend approximately $2.75 billion on EE projects for K-12 and Community College campuses.[16] Details of fund allocations and distributions are described in the California Energy Commission's (CEC's) Proposition 39: California Clean Energy Jobs Act − 2013 Program Implementation Guidelines (December 2013).

Even before the CEC issued its final guidelines, SoCalGas was already active with K-12 School and Community College customers in support of Prop 39. SoCalGas worked directly with K-12 schools to offer assistance on EE audits, identify existing SoCalGas offerings to complement Prop 39 projects, facilitate data transfer, provide planning assistance, and educate school representatives at events such as the K-12 Schools Symposium. Through its participation in the Statewide IOU/California Community College Partnership (CCC Partnership), SoCalGas has also been fully engaged in the Prop 39 efforts with the California Community Colleges Chancellor's Office (CCCCO) and has been working directly with the Community Colleges. SoCalGas has provided the same type of support it provides the K-12 schools, plus Prop 39 utility coordination during the quarterly Community College Campus Forums held in each region to discuss college facility needs. In addition, SoCalGas has been collaborating with other IOUs and Public Owned Utilities (POUs) to meet with school districts and Community Colleges to engage in their plans for implementing Prop 39. Internally, the company has also hosted Prop 39 training for account executives who work closely with K-12 School and Community College customers.

SoCalGas proposes to leverage this experience to expand its Prop 39 support in 2015. After carefully considering the impact of Prop 39 on its EE Portfolio offerings for 2015, SoCalGas has identified three areas of proposed changes to support Prop 39 efforts: additional technical assistance, increased incentives, and modified custom project processes.

*Additional Technical Assistance*

Supporting the implementation of Prop 39 projects during 2015 will require additional

[16] Per Senate Bill No. 73, the California Clean Energy Jobs Act, approved by the voters as Proposition 39, provides for the transfer of 550,000,000 annually for 5 fiscal years beginning with the 2013 – 2014 fiscal year.

technical assistance, both internal and external to SoCalGas. Internally, the primary assistance required will be in the area of data transfer to and from SoCalGas. One reason for this is that Prop 39 funded projects require school districts to sign the CEC's data authorization form to allow SoCalGas to provide the school's gas consumption data annually through 2023 to the CEC. Since there are over 700 school districts in the SoCalGas territory, this requirement will tax the existing customer operations support infrastructure. Similarly, a request for aggregate school data for a site with multiple meters will require work from customer operations, account executives and/or program staff beyond current support. Finally, all Prop 39 funded projects coming into SoCalGas will be identified and tracked internally - thereby necessitating additional support from internal resources.

SoCalGas has also identified gaps in program offerings and technical assistance to external customers leveraging Prop 39 funding. As a result, SoCalGas intends to leverage the work of its WE&T team to roll out supplementary training targeting school representatives in 2014. The training topics will include American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE) Energy Audits and building systems/operations, with other classes to be added as identified. Besides the audit training, SoCalGas, in conjunction with SCE, will also offer fully-funded ASHRAE Level II audits as part of its Commercial Energy Advisor Sub-Program. Additional delivery methods for ASHRAE Level II audits are also being discussed for roll out in 2015.

*Increased Incentive Levels*

SoCalGas expects that with the implementation of Prop 39, there will be an increase in the number of projects that will be incented through the Statewide Commercial Sub-Programs and the third party Program for Resource Efficiency in Private Schools (PREPS). In anticipation of this surge, SoCalGas has increased the budget for the Commercial Calculated, Commercial Deemed and PREPS programs in order to drive more performance. In addition to the increased program budgets, SoCalGas is working on providing schools with measure implementation options packaged as bundles. These bundles would be assembled to provide the schools cost-effective and parallel measure installations which meet the CEC Savings-to-Investment Ratio (SIR) requirements. Having these options available to the schools helps them select potential projects and, ideally, allows for the installation of measures that might not otherwise have been included.

While Prop 39 funding will facilitate cost-effective projects at the K-12 and Community College level, there are still many potential measures that schools will not be able to implement without additional funding. SoCalGas intends to propose an increase in the incentive level for these measures to overcome this barrier through the PIP Addendum process. Measures that could be implemented more frequently on campuses if increased incentive levels are offered include, but are not limited to: insulation/building envelope, boiler replacement (for units exceeding 82% efficiency), pool covers, energy management systems, and heating, ventilation and air-conditioning (HVAC) (controls, valve repairs, duct routing, etc.). Providing increased incentive budgets and levels for these measures would promote more comprehensive projects and deeper savings to further leverage Prop 39 and EE funds.

The CCC Partnership currently offers an EE measure incentive for Monitoring-Based Commissioning (MBCx) that is of particular interest to the CCC Chancellor's Office, as noted in Proposition 39: Clean Energy Jobs Act of 2012 California Community Colleges Energy Project Guidance (May 2013). SoCalGas is working to expand this offering to the K-12 schools in 2015. In order to increase the likelihood of schools at either level implementing this measure, an increase in incentive offered would be required. Alternately, SoCalGas could provide a meter subsidy – for MBCx and other EE programs – to enable schools to develop their Energy Action Plans and begin to monitor their equipment and usage. SoCalGas intends to develop a preferred approach to further enhance the MBCx offering through the PIP Addendum process.

*Modified Custom Project Processes*

Due to limited budgets, schools at all levels have been forced to curtail their spending. In 2008, it was estimated that California K-12 schools' deferred maintenance needs were $25.4

billion; it is clear that there is a drastic need to address this customer segment.[17] As a result, many schools fall short of current equipment code requirements, and this gap becomes more evident when determining the savings and incentives for customized projects. Given these pervasive conditions, SoCalGas proposes the use of existing conditions as an alternate baseline for counting savings and incenting projects (as described in Ordering Paragraph 151 of D.12-05-015) for K-12 and Community College custom projects. In calculating the energy savings for a project, the CEC allows for calculations based on "as is" conditions rather than code; to be consistent with that methodology, SoCalGas proposes that the energy savings for school projects be calculated based on "as is," or existing, conditions. Allowing existing conditions as the baseline is expected to fuel deeper, more comprehensive energy savings opportunities in a state where 40% of the classrooms are at least 50 years old.[18]

Custom projects that are funded by both Prop 39 and EE programs have an added complication in that the latter requires them to be included in the Custom Measure and Project Archive (CMPA) biweekly submittals, per Attachment B to D.11-07-030. Any delay due to CMPA-related project review processes has the potential to seriously impact implementation schedules, as schools have limited opportunities during summer and winter breaks to install measures. As a result, SoCalGas recommends that whenever possible, projects receiving funds from both Prop 39 and EE programs submit their projects for parallel review by the CPUC and CEC or CCCCO,[19] as appropriate, to minimize any delays due to these required reviews. In addition to this, SoCalGas proposes that Prop 39 funded K-12 school and community college custom applications be expedited through the custom project review process. More specifically, we encourage the Commission staff to limit the time they have to decide if a new application measure or project is selected for review, either in pre-application or application stage, to two

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[17] Crampton, F. and Thompson, D. (2008). Building minds, minding buildings: School infrastructure funding need: A State-by-state assessment and an analysis of recent court cases. American Federation of Teachers: Washington, DC.
[18] Center for Cities and Schools (2012). California's K-12 Educational Infrastructure Investments: Leveraging the State's Role for Quality School Facilities in Sustainable Communities. University of California, Berkeley.
[19] California Senate Bill 95 authorizes the CCCO to approve Prop 39 funding for the Community College districts.

weeks. This request is consistent with guidance provided in the EEPM, which allows for IOU-requested fast-tracking of projects. It is anticipated all other custom review process requirements will be followed.

## C. Energy Upgrade California™ Home Upgrade Program Improvements

SoCalGas is committed to the success of Energy Upgrade California™ Home Upgrade and appreciates the Commission's acknowledgment of its importance in driving efficiency in existing buildings. Since program inception in late 2010, SoCalGas has been closely coordinating with Commission staff, the CEC, the Regional Energy Networks (RENs), contractors and other stakeholders to incorporate lessons learned and new ideas to make improvements in multiple areas of the program. Progress has been made to address some of the most burdensome program issues through completion of efforts directed in D.12-11-015, including the formation of a Home Upgrade Working Group for regular stakeholder engagement, the redesign of the former Basic Path, the statewide alignment and streamlining of protocols regarding HVAC emergency replacements and high performing contractors, and the targeting of hotter climate zones. However, SoCalGas recognizes the need for continued emphasis on improving the program and reducing the barriers to participation for both contractors and customers.

Throughout 2014 and 2015, SoCalGas will continue to identify opportunities for improvement, coordinating closely with stakeholders throughout the process, as has been the practice since the development of the initial program. Many of these improvements are already underway including, but not limited to, those areas outlined in the Scoping Memo. The following section provides an understanding of the enhancements to the SoCalGas program that are being pursued through existing available processes.

### 1. Developing New Strategies for Plug Load and Appliances

SoCalGas has adopted new strategies to better integrate Plug Load and Appliances program savings within Home Upgrade, and will continue to investigate additional opportunities to maximize customer energy savings. In 2013 and 2014, SoCalGas expanded the allowable measures in Advanced Home Upgrade Program.

In 2013 in order to facilitate a "one-stop-shop" experience for Home Upgrade customers, SoCalGas added a clothes washer to the Optional Additional Measure list. Customers completing a Home Upgrade Program no longer need to fill out a separate Single-Family Application if they want to receive a rebate for the clothes washer. Beginning in 2014, SoCalGas is considering allowing model pool pump savings and possibly pool heaters in the Advance Home Upgrade Program. Also in 2014, as a pilot program, SoCalGas began offering "no-cost" EE Savings Kits to contractors to help sell Home Upgrade energy projects. Among other items, the EE Savings Kit contains a low-flow showerhead and faucet aerators. SoCalGas is utilizing the Home Energy Advisor tool within the Residential Energy Advisor program to track ongoing customer engagement and messaging reinforcement.

**2. Using and Distributing Additional Modeling Tools to Contractors**

SoCalGas is expanding the use of software modeling tools that will be utilized in Advanced Home Upgrade, expected to be available in early 2014. Use of additional software tools will reduce administrative burden on contractors, improve the customer sales and engagement process, and improve energy savings prediction accuracy. Successful implementation of expanded software tools also opens the door for future program design enhancements such as a pay-for-performance incentive and improved real-time evaluation. SoCalGas has presented a modified Advanced Home Upgrade incentive structure that will leverage this new functionality, encourage deeper retrofits, target high energy users and reduce participation costs for these large projects. This proposal has received positive feedback from participants at a recent public stakeholder workshop. SoCalGas along with other program administrators are currently engaging additional participants and stakeholders in design details, and will pursue incentive changes through the PIP Addendum process.

### 3. Further Streamlining Reporting Requirements

Building on improvements completed in 2013, SoCalGas continues to work closely with participating contractors and raters to identify and resolve application and process challenges. The joint SoCalGas / Southern California Edison (SCE) Home Upgrade Program has made improvements to reporting requirements and substantially reduced the average time to reach process milestones. One example was the decrease in processing time from the application approval date to the check cut date. SoCalGas and SCE will continue to improve upon this by working closely with other IOUs, participating contractors, and raters to identify and resolve application and process challenges in 2015.

In February, 2014, SoCalGas simplified the inspection process for contractors by removing the pre-inspection requirement on all Home Upgrade Program projects. Beginning in March, SoCalGas is also implementing a new streamlined processing of applications. This will allow contractors to start their projects more quickly as a way of helping to close the sale. The process for Advanced Home Upgrade will be further simplified with the allowance of additional software programs and the use of the Home Performance Extensible Markup Language (HPXML) website which will help standardize and facilitate the collection and exchange of data between contractors and program administrators. As residential energy efficiency programs expand, the need for accurate and seamless data transfer becomes more important.

### 4. Targeting and Outreach to Specialty Contractors

SoCalGas has been targeting and making other program modifications to better involve specialty contractors in Home Upgrade. Changes made by statewide administrators for the new Home Upgrade offering were made with this as a key objective, plus SoCalGas also has been taking steps to better integrate Home Upgrade with Residential HVAC programs. Deeper integration of these programs and greater cross-participation of contractors is expected in 2014 and 2015.

SoCalGas will be collaborating with the Statewide HVAC team to further develop plans to incorporate Quality Improvement/Quality Maintenance (QI/QM) into the Home Upgrade

Program.

**5. Reconfiguration of How the Point/Rebate Structure Works**

SoCalGas continues to evaluate the Home Upgrade Program point structure in order to improve all aspects of its usefulness. SoCalGas will work with the market transformation consultant, in coordination with the other IOUs and RENs, to develop a roadmap by mid-2014 that will guide future program development, with one of the highest priorities being reconfiguring the point structure.

**6.** Additional Areas of Improvement

In addition to the improvement areas specified in the Phase 1 Scoping Memorandum, SoCalGas has been expanding offerings for multifamily customers through the Residential Energy Upgrade California™ sub-program during 2013-2014, including pilot activities. SoCalGas plans to continue these efforts to increase energy savings for multifamily customers.

In 2014 and 2015, SoCalGas would also like to explore modifications and expansions of the Energy Upgrade California™ multifamily comprehensive building program. SoCalGas believes there is an opportunity to augment the existing calculated multifamily incentive with a bundled deemed measure approach. This type of approach has been shown to increase participation and better attract portfolio property managers.

In order to ensure continued program improvements are properly considered, SoCalGas supports the recommendation of the Commission staff to convene a workshop to help generate additional program suggestions and focus on areas of improvement. SoCalGas also plans to expand offerings to high-rise properties and to areas served by municipal electric utilities. SoCalGas will continue leveraging the Single Point of Contact model and leverage across programs, including the Middle Income Direct Install and Energy Savings Assistance (ESA) Programs.

In addition, the Market Transformation consultant for Home Upgrade will help program administrators with program developments and recommendations that will evolve throughout the course of 2014 and extend into 2015. While these additional process improvements and incremental program changes may be made throughout 2014, more substantive, significant changes beyond the expansion of allowable software modeling tools will be incorporated as part of Phase 3 of this Rulemaking so as to be informed by the Market Transformation consultant's work. Specifically this work will include partnering with IOUs, RENs and the statewide Working Group to conduct a comprehensive assessment and provide recommendations regarding, but not necessarily limited to the following areas, in order to achieve a transformed, self-sustaining residential whole house efficiency market by 2025:

i. Policy rules and guidance (e.g., cost-effectiveness methodology)
ii. Program design and delivery
iii. Identification of key market transformation indicators
iv. Program evaluation and monitoring
v. Marketing, education and outreach
vi. Ongoing and effective stakeholder engagement
vii. Other opportunities that can be leveraged
viii. Development of a ten year step-down incentive structure
ix. Contractor engagement model

The SoCalGas authorized budget for Home Upgrade Programs during the 2013 – 2014 program cycle is approximately $6.7 million per year. SoCalGas believes the aforementioned program enhancements can be made during 2014 and continuing into 2015 through the existing processes that accommodate program change. SoCalGas proposes a 2015 budget of approximately $6.8 million for its Home Upgrade Programs, for an increase of roughly $95,000, to attain these improvements and increase program participation.

### D. Other Program Changes

As indicated in testimony for the 2013 – 2014 program cycle, SoCalGas has reformulated its standing Program Advisory Group (PAG) as a manner of interacting with portfolio stakeholders and receiving input of various nature, including process enhancements, identifying market opportunities, and understanding performance. SoCalGas maintains an interest in fostering strong relationships with its program partners, customers, and community of customers.

Many of the suggestions and ideas expressed by stakeholders at the Fall 2013 PAG meeting held on November 15, 2013 in Downey, California, have factored into the proposed changes included as part of this filing. Examples of this include increasing the emphasis on water energy, which is evident in the discussion regarding the SoCalGas strategy towards water conservation and the water-energy nexus in section D.2., below. The SoCalGas Prop 39 efforts described above are a continuation of the efforts already put in place in 2013, and also reflect a focus of the stakeholder community. Proposed changes are also included that echo stakeholder input regarding the need to restructure incentives, the timing of processing calculated projects involved in the custom measure review process (as part of the Prop 39 proposal), and the use of existing customer equipment as the baseline for custom projects (as part of the targeting locational IDSM and Prop 39 proposals).

These are just a few examples of how feedback from stakeholders contributed to the SoCalGas proposals. SoCalGas plans to convene its next PAG meeting later this spring to continue to exchange information and ideas with its EE program partners.

**1. Proposed Alternative Baseline Plan**

As part of the targeting locational and Prop 39 efforts, SoCalGas is proposing to work with stakeholders to develop an alternative baseline methodology. While the current method for accounting for baseline is either current code or Industry Standard Practice (ISP), the alternative will explore using the existing customer equipment.

Throughout the years of implementing gas EE, SoCalGas has witnessed continued usage of equipment beyond the maximum effective useful life (EUL) of 20 years. The current cap of 20 years was previously established to mitigate risk on properly accounting for the useful life of the equipment.[20] With more robust project information and refinement of Net-To-Gross evaluation, the cap holds little value with gas equipment. Through SoCalGas' influence, this equipment is either replaced with more efficient equipment, or optimized for continued use,

[20] See D.09-05-037, p.30.

largely with customers that have the highest usage. Understanding the benefits of reduced usage allows SoCalGas' customers to grasp the benefits of energy efficiency improvements.

As mentioned previously, this "alternative" methodology would apply for targeting locational and Prop 39 projects addressing load constraints and schools ability to pursue projects. This methodology would specifically apply to custom calculated projects where existing customer usage is already measured in early retirement cases through current IOU engineering analyses. As this information is already collected, it can also be provided to evaluators to substantiate energy savings claims during *ex post* measurement. To qualify existing usage, SoCalGas can provide enough customer usage to show a proper average through multiple months or years prior to the expected project implementation. Further, this proposed methodology does not take away from any collaborative statewide work being performed to develop ISP, but will allow utilities and the Commission to track, address and increase the rigor of each ISP study as each technology moves towards full market saturation. This work can also be leveraged to inform future energy efficiency potential.

SoCalGas proposes leveraging the existing IOU-Commission Staff Technical working group to collaboratively develop a timely, joint proposal to be approved via Administrative Law Judge and/or Assigned Commissioner Ruling prior to implementation of the 2015 program year. This group will allow full stakeholder input to address the finer technical details of the approach. SoCalGas proposes this approach initially cover modifying the EUL cap of 20 years and establishing the baseline of existing conditions for early retirement projects. Later discussions should include reconciling C&S as well as future potential studies for goal setting. As Prop 39 and targeting locational projects make up a minor portion of SoCalGas' EE portfolio, SoCalGas urges the Commission to approve this plan, with an accelerated time frame, for the purpose of authorizing the vetted method for providing incentives and allowing energy savings to be calculated using the alternative baseline.

### 2. SoCalGas' Drought Alleviation Strategy and the Water-Energy Nexus

Earlier this year, California Governor Brown proclaimed a State of Emergency calling for state officials to take all necessary action to address the state's water needs.[21] SoCalGas maintains that the needs of all its customers should be addressed comprehensively for all resources, water included. In order to address California's severe drought conditions in the SoCalGas service territory, SoCalGas will continue to be a water advocate in the IDSM domain through 2015 by: promoting existing programs and technologies, developing new approaches and offerings, and establishing and expanding future partnerships with water utilities.

SoCalGas has been an active follower of R.13-12-011, Policies to Promote a Partnership Framework Between Energy IOUs and the Water Sector to Promote Water-Energy Nexus Programs. SoCalGas' primary focus for the proceeding has been in areas that use gas engines as the energy source for pumps and other equipment that deliver and treat water. To address the current work in the proceeding, SoCalGas has partnered with a city in its service territory to develop a Water Loss Program that will investigate the city's physical loss of water in the its water system distribution networks and storage facilities. The Water Loss Program will be a non-resource program designed to implement program offerings, quantify direct and identify embedded savings, evaluate cost-effectiveness, and may function as an aid in the development of the proceeding's methodology to properly account for savings and cost-effectiveness in water projects. While this will help address future needs, SoCalGas is vigorously pursuing solutions to the problem the State is facing now.

SoCalGas currently has a variety of measures, programs, and services that assist in saving both energy and water. Knowing that water heating is the second largest energy expense in residences, SoCalGas continues to offer rebates on energy efficient water heaters, dishwashers, low-flow showerheads and clothes washers. SoCalGas also offers EE Kits containing low-flow aerators and showerheads. SoCalGas offers incentives on boilers, steam traps, pool covers, cooking, and cleaning equipment through its deemed and food service programs. SoCalGas also has a host of customized solutions covering water treatment, condensate return and ozone

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[21] A Proclamation of State Emergency, Drought State of Emergency, dated January 17, 2014. See http://gov.ca.gov/news.php?id=18379.

laundry through its statewide calculated programs.

SoCalGas does not just offer material solutions but education as well. SoCalGas is jointly offering classes on sustainable agriculture and energy-smart landscaping with local water agencies. SoCalGas is also collaborating with CCSE to ensure the statewide water marketing is coordinated with local marketing efforts to save energy and water. All current education, training, measures, programs, and services are planned to be continued in 2015. Many of the current water-energy offerings are done with the assistance and teamwork with our water partners.

SoCalGas has a history of partnering and working collaboratively with water agencies. These partnerships started over 10 years ago and have continued to add diversity and integration for mutual and complementary offerings. In order to facilitate the ease of working together, SoCalGas is mirroring its successful IDSM cost-sharing agreements with the Metropolitan Water District (MWD) and other local water districts. A partnership with MWD gives SoCalGas access and the opportunity to collaborate with the largest supplier of water in the United States. These agreements will allow one utility to take the lead on processing for administrative efficiencies and expeditiousness, only require one joint application for participation in programs, and will be supported with cobranded marketing collateral so consumers are not confused by cross-messaging.

For the three municipalities SoCalGas is already partnered and has agreements with Los Angeles Department of Water and Power (LADWP), Anaheim Public Utilities, and Riverside Public Utilities; discussions have already begun to enable the promotion of more water-specific measures and projects. SoCalGas is working with additional water utilities / suppliers on similar agreements that are targeted to be finalized in 2014. Beyond these, SoCalGas will continue to look for and work with future water partners for drought relief. While SoCalGas refines current offerings and seeks additional partners, it is consistently exploring room for potential expansion in the water-energy field.

Going beyond the classroom SoCalGas is developing two initiatives from its landscaping and agriculture classes. The Sustainable Landscaping initiative will look at potential savings from the natural gas engines that distribute water to landscapes in the South Coast Hydrologic zone. The program will explore the water savings from the change in irrigation systems, types of water (potable, reclaimed), and change of plant palette to drought tolerant plants. SoCalGas is also developing a Sustainable Agriculture initiative that partners with universities that have natural gas engines that distribute water to understand the different types of crops and different ways of treating waste water. The program is expected to have three areas of focus listed below:

1. Designing and constructing wetlands that function as onsite treatment for water.
2. Drought tolerant crops that produce more yield with less water.
3. Different types of farming methodologies to produce more agricultural yield with less pesticides and water.

These programs will be offered through its portfolio by cross-cutting the WE&T, Agricultural, and IDEEA 365 Targeted Solicitation programs.

SoCalGas has also prioritized research in its Emerging Technologies and other statewide programs into water saving technologies. All the water-related technologies that are currently being researched or will be researched benefit from the duality of saving water and gas energy. SoCalGas has queued up research on waterless woks, water brooms, waste water recycling, onsite water treatment, and is looking into refinements for water well rehabilitation involving tools that rely on natural gas. SoCalGas is extending well research into a program that will look at well construction from pumps, casing, and the design of the well. The contemplated program will rehab the well, curbing the drilling of an additional well. SoCalGas is studying improved irrigation and growing techniques for its agricultural customers. On the residential side, water-recycling showers and clothes washer modifications have entered SoCalGas' new measure process. If viable, SoCalGas will offer incentives on these technologies as soon as they are available to the marketplace to help address the State's water concerns.

SoCalGas budgets associated with water-energy offerings are contained within the sector and specific programs that provide the applicable measures. SoCalGas generally believes the funding amounts currently embedded within those programs, taking into account the minor adjustments requested for 2015, are sufficient to support emphasis on penetration of water-energy solutions into households and businesses. To the extent that further opportunities become available, SoCalGas believes the existing fund shifting rules will be sufficient to remedy budget pressures, or will seek relief as appropriate from the Commission.

### 3. SoCalGas Will Investigate Incorporating Bottoming Cycle Combined Heat and Power as an Eligible Energy Efficiency Measure

SoCalGas is looking into developing an initiative to incorporate bottoming cycle Combined Heat and Power (CHP) as an eligible EE measure. SoCalGas agrees with the Scoping Memo parameters around the eligibility of bottoming cycle CHP as an eligible EE measure as having no supplemental fuel requirements.[22] SoCalGas believes that the pursuit of CHP applications will provide customers with energy efficient solutions that can achieve economic, environmental, and energy system benefits. It is important to recognize and treat system-wide energy savings benefits from CHP systems on par with other energy efficiency resources in IOU programs.

SoCalGas believes that bottoming cycle CHP could achieve success as an eligible EE measure in the following industrial applications.

- Nonmetallic Mineral Product Manufacturing
- Petroleum Refining
- Chemical Industry
- Fabricated Metals
- Natural Gas Compressor Stations
- Landfill Gas Energy Systems
- Oil and Gas Production

There are significant market barriers to achieve participation in this market. There are a limited number of customers in the industries above that would be eligible to participate in an EE

[22] Scoping Memo, p. 5.

CHP pilot. This is further complicated given the technical challenges associated with the unique nature of each prospective customer facility and application. There are also business limitations given the high up-front capital investment required to set up a CHP operation. SoCalGas recognizes these barriers and is developing an approach designed to overcome them. Once complete, SoCalGas will incorporate its approach as part of the Industrial Calculated Incentives Program and document it to the Commission via the PIP Addendum process.

### 4. IDEEA365 Competitive Bid Innovative and Targeted Solicitations

SoCalGas successfully launched the new Innovative Designs for Energy Efficiency Activities (IDEEA365) Solicitation Process as part of the 2013-2014 Third Party Portfolio offerings. Under this "rolling solicitation" program, SoCalGas was able to issue three separate bids for Innovative programs and an additional three Targeted requests for proposals (RFPs). By incorporating feedback from stakeholders from instituting a Peer Review Group process and conducting a mid-cycle forum with the other IOUs in late 2013, SoCalGas improved the solicitation process in each round in order to attract new bidders and program ideas. SoCalGas will continue the solicitation process for Innovative and Targeted ideas in 2015. The first priority for this program in 2015 will be the roll out of a Targeted RFP for the Agriculture and Food Processing Industry.

### 5. SoCalGas Proposes to Enhance Funding for the Residential HVAC Program

The Commission recently approved SoCalGas Advice Letters 4514 and 4536 which authorize SoCalGas to implement the Residential HVAC Upstream Incentive Pilot and HVAC Code Compliance Incentive Pilot programs. SoCalGas applauds the Commission for its approval and is dedicated to successfully implementing a comprehensive suite of HVAC strategies, technologies, and programs to customers. SoCalGas is committed to enhancing our HVAC offerings and is expanding our focus in that area in order to see meaningful market improvement. As a result, SoCalGas proposes to increase program funding for the Residential HVAC market by $1.2 million. SoCalGas plans to continue offering the following for 2015:

- Residential HVAC Upstream Incentive Pilot Program – The SoCalGas program will continue to provide incentives at the HVAC distributor level to influence the channel of equipment delivery by increasing the stocking patterns of the highest efficiency level of gas furnaces. SoCalGas will continue to offer incentives in two tiers: $400 for a 96% AFUE and $500 for a 97% AFUE.
- HVAC Code Compliance Incentive Pilot Program – The CEC and HVAC industry recognizes that less than 10% of HVAC installations are installed without proper permitting. SoCalGas proposes to offer an incentive of up to $300 to customers to ensure permits are pulled for the replacement of HVAC equipment. This was approved as a pilot program in the Coachella Valley working collaboratively with the electric utility provides in the shared service territory.
- Quality Installation and Quality Maintenance – This program is authorized to offer a $50 incentive to customers to exceed code compliance on the installation of a replacement HVAC system. Contractors are required to install systems utilizing the Energy Star Quality Installation guidelines in an effort to achieve and maximize energy savings on gas and electric measures. Quality Maintenance incentives will also be offered to ensure installed systems are maintained and operated correctly so that energy savings will persist over the life of the system.

### 6. SoCalGas Proposes to Enhance Funding for the Statewide Commercial and Agricultural Energy Efficiency Programs

SoCalGas is proposing to enhance its comprehensive energy efficiency solutions to its commercial and agricultural customers. Specifically, SoCalGas is proposing to increase its Statewide Commercial Energy Efficiency Program budget by $1.6 million and its Statewide Agricultural Energy Efficiency Program budget by $1.9 million in 2015 relative to the 2014 program budgets. SoCalGas is expanding its partnerships with municipal electric utilities and water agencies to continue to expand an offering of comprehensive IDSM solutions to customers. By incorporating gas, electric, and water saving opportunities, customers are being pushed to engage in projects with greater levels of energy efficiency. SoCalGas has found success in these partnerships in the 2013-2014 program cycle and is forecasting to significantly expand this activity in 2015. In addition to the general increased forecast of activities in these areas, SoCalGas will utilize the increased funding in the following areas:

- SoCalGas is going to leverage its statewide commercial programs in order to meet the needs of Prop 39 customers and activities. These activities were discussed in detail in Section IV.B. above;
- SoCalGas is developing an enhanced strategy to bundle gas measures to increase incentive and participation to move customers from single measures to deep energy savings projects;
- SoCalGas plans to enhance existing efforts to expand commercial MBCx for customers, including using Energy Management Systems to get energy savings for colleges and the Municipalities, Universities, Schools and Hospitals (MUSH) market;
- SoCalGas is developing an approach with Cities and Water Agencies that have natural gas to change their landscaping to find energy and water savings; and,
- SoCalGas is also increasing its focus on commercial Zero Net Energy (ZNE) on climate zones that utilize natural gas heating.

SoCalGas requests the Commission approve its 2015 budgets as proposed to support these contemplated activities and to achieve its energy savings goals.

**7. SoCalGas Proposes to Enhance Funding for the Statewide IDSM Program**

The Statewide IDSM Program encourages integration of demand-side management (DSM) options including EE, demand response (DR), and distributed generation (DG). SoCalGas is also promoting integration of the ESA Program that serves the income-qualified sector, and water conservation programs. As a gas only utility, the first step towards DSM integration is through combining efforts with local and regional electric and water utilities, and developing joint energy and water programs that include multi-faceted DSM approaches where feasible. Such joint efforts make it much more convenient for customers to participate in utilities' DSM programs and services. They also create significant cost savings as duplication can be avoided, and programs or services that were not cost-effective before can now be deployed due to this integration (for example direct install gas measures for small businesses).

Beginning in late 2012, SoCalGas has embarked on a master energy/water efficiency partnership with LADWP, the largest municipal utility in California, as well as with the City of Anaheim and Riverside. In 2013 alone, SoCalGas launched seven joint programs with LADWP, bringing the total joint programs to eight. These joint efforts have been very well received by customers, and they have resulted in additional gas, electric and water savings that would not have been possible otherwise. They also resulted in additional incentives for customer's projects (for example, the Energy Upgrade California™ Program can now offer both gas and electric incentives in the City of Los Angeles). In 2015, SoCalGas is planning to continue expanding these partnerships, and also explore additional partnership opportunities, especially with water utilities and agencies, in light of the severe drought that California has been experiencing.

SoCalGas proposes to increase the Statewide IDSM budget in order to enhance and expand these partnerships in 2015. In addition, SoCalGas proposes to develop additional tools for the multifamily sector that will help push energy and water demand-side management efforts, and also commission research and development efforts to establish and quantify benefits to the customers. SoCalGas will also target the development of ZNE sites and communities by exploring opportunities with builders and developers to facilitate and promote ZNE-enabling technologies and strategies.

SoCalGas proposes to modify its IDSM budget to support the described activities, as well as the targeting locational activities described in section VI.A., with a proposed increase of approximately $250,000 relative to program year 2014. IDSM is classified as a non-resource program; although the program itself does not get an assignment of associated energy savings, it facilitates increased participation in the various rebate programs with their attendant cost-effectiveness. The shift of $250,000 into this program does not have a material impact on portfolio cost-effectiveness, but is expected to have a positive impact of the cost-effectiveness of the programs supported by these efforts.

### 8. Programs Not Being Continued in 2015

SoCalGas is eliminating the Energy Challenger third party program, consistent with testimony provided in its 2013 – 2014 program cycle application. Energy Challenger, which provided small and medium Commercial and Industrial customers with online energy assessments, was replaced by the Integrated Customer Energy Audit Tool (ICEAT).

## VII.
## FUNDING, COST RECOVERY, AND SHAREHOLDER INCENTIVE

### A. 2015 Energy Efficiency Funding Request

SoCalGas is requesting a total budget authorization of $79.3 million for its 2015 energy efficiency programs. This amount is equal to the budget authorized by the Commission for the equivalent SoCalGas 2014 EE programs, except for a minor reduction to the EM&V budget to calibrate it to the 4 percent of portfolio level (not including the New Financing Pilots authorized under D.13-09-044). Table 6, below, provides the budgets by program as well as program sector (also referred to as the "fund shifting categories"). SoCalGas requests that the Commission approve the specific amounts for each of the programs as proposed below.

**Table 6: Proposed 2015 Budget (Dollars) and Energy Savings (Therms) by Program**

| Program | Annual Budget (2014) | Annual Budget (2015) | Annual Savings (2014) | Annual Savings (2015) |
|---|---|---|---|---|
| **Residential Programs Total** | **$19,565,620** | **$19,579,342** | **2,977,472** | **2,430,271** |
| Energy Advisor | $755,495 | $757,889 | - | - |
| Plug Load & Appliances (PLA) | $5,634,684 | $4,193,046 | 1,089,722 | 916,905 |
| PLA – Point of Sale (POS) | $2,109,265 | $2,287,108 | 864,601 | 517,004 |
| Multifamily (MFEER) | $1,383,955 | $1,328,972 | 638,546 | 481,771 |
| Home Upgrade Program | $6,672,313 | $6,767,345 | 193,072 | 119,623 |
| Residential HVAC | $203,217 | $1,409,054 | - | 72,301 |
| Residential New Construction | $2,806,691 | $2,835,928 | 191,532 | 322,665 |
| **Commercial Programs Total** | **$9,137,961** | **$10,737,344** | **3,833,509** | **4,773,499** |
| Energy Advisor | $508,004 | $516,008 | - | - |
| Continuous Energy Improvement | $200,000 | $200,329 | - | - |
| Calculated Incentives | $4,619,925 | $5,195,394 | 2,922,120 | 3,836,700 |
| Deemed Incentives | $3,482,050 | $4,497,331 | 911,389 | 936,799 |
| Nonresidential HVAC | $327,983 | $328,282 | - | - |
| **Industrial Programs Total** | **$14,601,865** | **$11,173,217** | **12,425,162** | **10,546,582** |
| Energy Advisor | $608,003 | $615,730 | - | - |
| Continuous Energy Improvement | $323,000 | $324,017 | - | - |
| Calculated Incentives | $12,629,096 | $9,184,880 | 10,951,244 | 9,900,000 |
| Deemed Incentives | $1,041,766 | $1,048,590 | 1,473,918 | 646,582 |
| **Agricultural Programs Total** | **$2,377,317** | **$4,238,506** | **1,210,632** | **3,542,044** |
| Energy Advisor | $39,006 | $39,703 | - | - |
| Continuous Energy Improvement | $32,110 | $32,200 | - | - |
| Calculated Incentives | $1,772,616 | $3,663,775 | 748,399 | 3,327,300 |
| Deemed Incentives | $533,584 | $502,829 | 462,233 | 214,744 |
| **Emerging Technologies Program Total** | **$1,258,363** | **$1,272,335** | **-** | **-** |
| Technology Development Support | $62,878 | $63,575 | - | - |
| Technology Assessment Support | $503,017 | $508,588 | - | - |
| Technology Introduction Support | $692,468 | $700,172 | - | - |
| **Codes & Standards Total** | **$837,114** | **$842,591** | **-** | **-** |
| Building Codes & Compliance Advocacy | $208,626 | $209,995 | - | - |

| Program | Annual Budget (2014) | Annual Budget (2015) | Annual Savings (2014) | Annual Savings (2015) |
|---|---|---|---|---|
| Appliance Standards Advocacy | $166,386 | $167,482 | - | - |
| Compliance Enhancement | $249,564 | $251,207 | - | - |
| Reach Codes | $84,826 | $85,374 | - | - |
| Planning Coordination | $127,711 | $128,533 | - | - |
| **Workforce, Education & Training Total** | **$3,077,277** | **$3,128,997** | **-** | **-** |
| WE&T Centergies | $2,499,986 | $2,548,697 | - | - |
| WE&T Connections | $427,290 | $429,952 | - | - |
| WE&T Strategic Planning | $150,000 | $150,348 | - | - |
| **Integrated Demand Side Management** | **$325,000** | **$581,750** | **-** | **-** |
| Integrated Demand Side Management | $325,000 | $581,750 | - | - |
| **Financing Programs Total** | **$2,463,689** | **$2,264,324** | **375,000** | **0** |
| On-Bill Financing | $863,689 | $878,579 | 375,000 | 0 |
| ARRA-Originated Financing | $1,600,000 | $1,385,745 | - | - |
| **Local Institutional Partnerships Total** | **$1,356,800** | **$1,350,130** | **-** | **-** |
| CA Department of Corrections | $259,197 | $256,482 | - | - |
| California Community College Partnership | $351,715 | $372,082 | - | - |
| UC/CSU/IOU Partnership | $473,030 | $471,035 | - | - |
| State of CA/IOU Partnership | $272,858 | $250,531 | - | - |
| **Local Government Partnerships Total** | **$3,405,915** | **$3,495,821** | **-** | **-** |
| LA County Partnership | $216,973 | $227,492 | - | - |
| Kern County Partnership | $104,232 | $104,789 | - | - |
| Riverside County Partnership | $147,059 | $141,676 | - | - |
| San Bernardino County Partnership | $144,859 | $142,985 | - | - |
| Santa Barbara County Partnership | $114,647 | $123,769 | - | - |
| South Bay Cities Partnership | $153,966 | $156,042 | - | - |
| San Luis Obispo County Partnership | $107,282 | $102,309 | - | - |
| San Joaquin Valley Partnership | $97,145 | $115,285 | - | - |
| Orange County Partnership | $135,969 | $153,703 | - | - |
| SEEC Partnership | $147,698 | $147,698 | - | - |
| Community Energy Partnership | $126,323 | $139,684 | - | - |

| Program | Annual Budget (2014) | Annual Budget (2015) | Annual Savings (2014) | Annual Savings (2015) |
|---|---|---|---|---|
| Desert Cities Partnership | $25,300 | $18,034 | - | - |
| Ventura County Partnership | $168,081 | $171,544 | - | - |
| Local Government Energy Efficiency Pilots | $215,000 | $215,000 | - | - |
| New Partnership Programs | $298,436 | $299,443 | - | - |
| LG Regional Resource Placeholder | $322,434 | $325,955 | - | - |
| Gateway Cities Partnership | $163,062 | $174,765 | - | - |
| San Gabriel Valley COG Partnership | $240,253 | $249,015 | - | - |
| City of Santa Ana Partnership | $71,896 | $79,437 | - | - |
| West Side Cities Partnership | $49,067 | $47,822 | - | - |
| City of Simi Valley Partnership | $49,254 | $48,213 | - | - |
| City of Redlands Partnership | $60,034 | $61,966 | - | - |
| City of Beaumont Partnership | $51,323 | $53,770 | - | - |
| Western Riverside Energy Partnership | $195,628 | $195,427 | - | - |
| **Third Party Programs Total** | **$16,862,745** | **$16,375,717** | **3,560,626** | **2,956,447** |
| Energy Challenger | $0 | $0 | - | - |
| Small Industrial Facility Upgrades | $744,357 | $745,183 | 339,381 | 339,381 |
| PREPS | $896,727 | $1,226,515 | 356,903 | 483,852 |
| On Demand Efficiency | $2,370,949 | $2,545,075 | 564,602 | 423,166 |
| HERS Rater Training Advancement | $636,587 | $638,326 | - | - |
| MF Home Tune-Up | $1,070,657 | $1,141,315 | 291,430 | 223,990 |
| CLEO | $264,017 | $265,080 | - | - |
| MF Direct Therm Savings | $2,039,667 | $1,535,809 | 584,480 | 228,712 |
| LivingWise | $994,511 | $803,634 | 725,395 | 375,070 |
| Manufactured Mobile Home | $2,769,366 | $2,889,010 | 440,807 | 172,204 |
| SaveGas | $523,666 | $524,554 | 257,628 | 195,721 |
| CA Sustainability Alliance | $600,807 | $602,191 | - | - |
| Portfolio of Future | $549,534 | $550,891 | - | - |
| PACE | $689,202 | $690,265 | - | - |
| Innovative Designs for Energy Efficiency Activities (IDEEA365) | $2,712,699 | $1,670,791 | - | 360,000 |
| Instant Rebates! | $0 | $547,078 | - | 154,351 |
| **CRM** | **$748,905** | **$978,500** | **-** | **-** |

| Program | Annual Budget (2014) | Annual Budget (2015) | Annual Savings (2014) | Annual Savings (2015) |
|---|---|---|---|---|
| **SOCALGAS PROGRAM TOTAL** | **$76,018,572** | **$76,018,572** | **24,382,402** | **24,248,842** |
| Codes and Standards Advocacy (Adjusted Net Savings) | $0 | $0 | 3,120,542 | 1,740,741 |
| Energy Savings Assistance (ESA) Program ** | $0 | $0 | 2,426,915 | 2,426,915 |
| EM&V | $3,650,812 | $3,287,687 | - | - |
| **2015 SOCALGAS REQUESTED BUDGET** | **$79,669,385** | **$79,306,259** | **29,929,859** | **28,416,498** |

* Values shown do not include annualized 2015 budget for New Financing Pilots ($5.1 million) or Statewide Marketing, Education & Outreach approved in separate proceedings, or the budget that will be associated with the SoCalREN.
** Energy savings associated with ESA Program for 2015 is scheduled to be proposed in an application to be filed on July 1, 2014. Value used for illustrative purposes for 2015 is the 2014 estimated savings level.

## B. Revenue Requirements

As outlined above, SoCalGas is requesting a budget amount for 2015 EE programs equal to that authorized by the Commission for 2014 EE programs.[23] SoCalGas requests approval of funding in the amount of $79.3 million for 2015 EE programs. If the Commission approves SoCalGas' request, SoCalGas will adjust rates to reflect authorization of the proposed program budgets. A table containing present and proposed revenue requirements and rates associated with the 2015 EE portfolio is provided at Appendix F.

As discussed in Section III, SoCalGas requests the Commission redefine the current EE program cycle from 2013 – 2014 to a traditional three-year cycle consisting of the years 2013 – 2015. The Scoping Memo appears to support this notion by stating that "consistent with prior practice, unspent and underspent funds from the 2013 – 14 cycle should carry forward into the 2015 program year." The Scoping Memo also indicates that "funding requests should identify both total budget authorization, and specify which part of the budget request can be met using unspent or underspent funding."[24] Per D.12-11-015, SoCalGas is refunding the estimated

[23] 2014 EE programs authorized in D.12-11-015.
[24] Scoping Memo, p. 9.

uncommitted and unspent funds for prior program cycles during 2013 and 2014. During 2014 specifically, SoCalGas is returning the estimated uncommitted and unspent funds for the 2010 – 2012 program cycle of $36.7 million. Remaining funds from the 2010 – 2012 program cycle committed for customer projects and/or contained within contracts and expected to be completed after 2012 have been carried forward into the 2013 – 2014 program cycle and beyond.

As shown in Table 7, below, in addition to the $36.7 million amortization through the Demand-Side Management Balancing Account (DSMBA), SoCalGas carried a total of $23.7 million from the 2010 – 2012 program cycle. This leaves an incremental $1.8 million of funding that SoCalGas now proposes to be refunded to ratepayers in 2015 rates to offset the $79.3 million proposed budget. The remaining 2010 – 2012 carryover funds are fully committed and not available to meet part of the 2015 budget request.

**Table 7: Unspent / Uncommitted Funds From Prior Program Cycles**

| Description | $ Million |
|---|---|
| 2010-2012 DSMBA Balance Dec 31, 2013 | $62.2 |
| 2014 DSMBA Amortization | - $36.7 |
| 2010-2012 Encumbered Funds (including EM&V) | - $20.6 |
| 2010-2012 SW ME&O Unspent Committed * | - $3.1 |
| 2010-2012 Unspent/Uncommitted | $1.8 |

* Value shown will be applied to funding the 2014 – 2015 SW ME&O authorized budget.

Consistent with the request that 2015 be considered the third year of a 2013 – 2015 program cycle, and the Scoping Memo instruction that unspent funds should carry forward to 2015, SoCalGas proposes the funds authorized in D.12-11-015 for 2013 – 2014 and not spent would remain available in 2015. Program cycles typically begin slowly and ramp up in activity, with increased spending toward the latter half of a traditional three year cycle. It is premature to consider any of the authorized 2013 – 2014 transition cycle funds available to reduce the SoCalGas 2015 budget request or reduce rates until the proposed 2013 – 2015 cycle is completed. In the event the Commission determines that the 2013 – 2014 program years shall be evaluated as a two-year program cycle, SoCalGas similarly requests that funding associated with those two years remain available to spend during the cycle to meet emerging needs and ultimately its energy savings and program performance goals.

Accordingly, the Commission should allow SoCalGas to continue to utilize all of its 2013 – 2014 authorized funding during the present program cycle, and to true-up unspent, uncommitted funds at the end of the program cycle to determine the appropriate disposition of such funds.

SoCalGas also collects revenues on behalf of the SoCalREN. As noted above, SoCalGas was informed of the SoCalREN 2015 budget proposal; consistent with current practices SoCalGas will ultimately incorporate the authorized 2015 budget for the SoCalREN into the gas Public Purpose Program surcharge, which is the basis for recovering the majority of EE revenues in customer rates.

**C. 2015 Energy Efficiency Portfolio Budget Caps and Targets**

The SoCalGas 2015 EE Budget Filing complies with all of the Commission's cap and target requirements associated with this Funding Request. In D.09-09-047, Ordering Paragraph (OP) 13, the Commission determined that administrative costs are limited to 10 percent of the total energy efficiency budget, and Marketing, Education & Outreach costs have a budget target of 6 percent of the adopted portfolio budget. Additionally, non-incentive direct implementation costs have a budget target of 20 percent of the total budget, and EM&V funding is set at 4 percent of the authorized budget level. SoCalGas notes because the EM&V funding level is a function of the budget, that the value presented for this filing is an illustrative amount based on proposed values, and requests the Commission authorize an updated amount equivalent to 4 percent of the approved 2015 budgets for SoCalGas and the SoCalREN when those amounts are final, through an implementation filing. SoCalGas has calculated its portfolio caps and targets in conformance with these directives in addition to the following assumptions and has presented the final performance in Table 8 below:

- General Rate Case loaders associated with EE program labor as directed by D.12-11-015, OP 39 are included. On January 11, 2012, Energy Division conveyed ALJ Fitch's direction that the GRC costs are to be included in calculating the prospective portfolio budget administration cap.

- Funding for the SoCalGas On-Bill Financing Program loan pool recovered in gas transportation rates is included, but does not impact the calculations because the proposed level for 2015 is zero.
- Pursuant to D.13-12-038, the Statewide Marketing, Education & Outreach program costs are excluded from the marketing budget target.
- According to the direction contained in the Disposition Approving Compliance Advice Letter Implementing PG&E's 2013-2014 Energy Efficiency Portfolio Pursuant to Decision 12-11-015, dated September 5, 2013, SoCalGas excluded those program costs identified by Energy Division to be exempt from the cap and target calculation.

**Table 8: Proposed 2015 Portfolio Caps and Targets**

| | Budgets | | | | | |
|---|---|---|---|---|---|---|
| | Admin | Marketing | Direct Implementation | Incentives | EM&V | Total Budget |
| 2015 Proposed Budget | $ 6,917,242 | $ 4,255,741 | $ 33,563,427 | $ 31,282,163 | $ 3,287,687 | $ 79,306,259 |
| GRC Labor Loaders | $ 5,188,178 | $ 119,345 | $ 1,114,277 | | | $ 6,421,800 |
| New Financing Pilots | $ 637,254 | $ 682,280 | $ 1,597,076 | $ 2,217,201 | | $ 5,133,811 |
| OBF Loan Pool | | | | | | $ - |
| Statewide ME&O | | $ 2,002,034 | | | | $ 2,002,034 |
| **Total EE Funding** | | | | | | **$ 92,863,903** |
| | | | | | | |
| SoCalREN | | | | | | $ 2,885,909 |
| **Total EE Funding w/ SoCalREN** | | | | | | **$ 95,749,812** |
| | | | | | | |
| Parameter Type | Cap | Target | Target | Target | Budget | |
| Cap / Target Level | $ 8,237,802 | $ 5,034,807 | $ 20,914,865 | $ 33,499,364 | $ 3,287,687 | |
| Total Budget for Calculation | $ 92,863,903 | $ 92,863,903 | $ 92,863,903 | $ 92,863,903 | $ 82,192,168 | |
| Cap / Target Percent | 8.9% | 5.4% | 22.5% | 36.1% | 4.0% | |
| Caps/Targets | 10.0% | 6.0% | 20.0% | 60.0% | 4.0% | |

Notes:

(1) Total Budget for percentage basis calculation includes authorized EE budget and GRC loaders associated with EE FTEs. Value also reflects Statewide ME&O funding adopted in D.13-12-038 for cap / target determinations.

(2) For GRC labor loaders, Pension & Benefits categorized as administrative costs. The ICP, Workers Compensation, and PLPD loaders follow labor, and therefore are associated with the Admin, Marketing and DI Labor.

(3) Admin and Direct Implementation reflects program exemptions as directed in D.09-09-047 (see pp.50-51 and OP 13a).

(4) SoCalGas 2015 Proposed Budget is equivalent to annual level for 2013 - 2014 program cycle; EM&V budget has been adjusted to 4 percent of the proposed 2015 SoCalGas and SoCalREN budgets. Value shown should be considered illustrative and subject to update for budgets authorized in the Commission's final Phase I decision.

(5) SoCalREN budget shown based on communication provided to SoCalGas dated March 14, 2014. Please refer to SoCalREN filing for definitive proposed budget in this proceeding.

In addition, the Commission requires that a minimum of 20 percent of the EE portfolio be allocated for third party programs. In D.12-11-015 the Commission clarified that EM&V costs shall be included in the determination for meeting that threshold. SoCalGas' proposed budget above includes $20.4 million for competitively bid third-party implemented programs, which includes local third party programs as well as third parties who implement SoCalGas' statewide programs. This constitutes 25.7 percent of the SoCalGas 2015 proposed budget, which exceeds the Commission's 20 percent requirement for competitively bid programs.

**D. Cost Recovery**

i. Energy Efficiency Programs

SoCalGas proposes continuation of the gas Public Purpose Program (PPP) surcharge as the basis for recovering the majority of EE revenues in customer rates. This occurs in the Demand-Side Management Balancing Account (DSMBA). Customers are allocated EE revenue changes according to the EE/DSM Direct Benefits method authorized in D.05-09-043. SoCalGas proposes to continue this allocation method during the 2015 program year.

ii. On-Bill Financing (OBF) Program

SoCalGas' approved energy efficiency portfolio includes the OBF Program which is designed primarily to facilitate the purchase and installation of comprehensive, qualified energy efficiency measures by customers who might not otherwise be able to act given capital constraints and/or administrative and time burdens. Pursuant to D.09-09-047 and D.12-11-015 and as implemented by Advice Letters 4035 and 4449, SoCalGas established a pool to fund loans during the 2010 – 2012 and 2013 – 2014 EE program cycles. The On-Bill Financing Balancing Account (OBFBA) was established to track loan pool funding, with the balance collected through gas transportation rates. SoCalGas has determined that additional funding is not required at this time to fund the loan pool. Because the OBFBA was authorized at a $1 million annual level to meet the anticipated demand for 2013 – 2014, this proposed change results in a decrease in funding for 2015. If authorized, SoCalGas proposes the OBFBA be updated as part of the annual regulatory account updates submitted in October by adjusting the accounting features associated with revenue collection.

### E. Shareholder Incentive Mechanism

The Scoping Memo indicated that recalibration of the 2013 – 2014 Energy Savings Performance Incentive (ESPI) mechanism approved in D.13-09-023 to account for changes in goals and 2015 budgets is within the scope of this proceeding. SoCalGas recommends that the recalibration of the ESPI mechanism be performed through a Tier 2 Advice Letter within forty-five days following the final approval of the 2015 EE portfolio. SoCalGas will coordinate with the IOUs and Energy Division prior to the filing of this advice letter.

## VIII.
## 2015 PROGRAM FUNDING CONTINGENCY

SoCalGas agrees that the schedule established in the Goals Ruling is an appropriate and adequate approach in order to settle 2015 Phase I issues and provide certainty to the energy efficiency community on funding availability for 2015. Should unforeseen circumstances arise that would preclude the Commission from approving SoCalGas' 2015 EE Budget Filing contained herein, SoCalGas proposes that the Commission extend the existing energy efficiency program funding on a monthly basis, at a level representing the average monthly spending levels in 2014 by administrator until such time that the Commission could issue a decision on the 2015 funding levels. This should be a fallback position only, and instead the Commission should focus its concerted efforts on approving the program plans contained herein.

## IX.
## CONCLUSION

SoCalGas respectfully requests that the Commission approve its 2015 EE Budget Filing expeditiously along the timeline outlined in the Goals Ruling. For the reasons set forth above and in the attachments submitted in support of this filing, SoCalGas specifically requests the Commission:

(1) Approve the 2015 portfolio budget of $79,306,259, an amount equivalent to the budget authorized for program year 2014 except for required modifications to the EM&V

budget, and resulting in a revenue requirement decrease of approximately $5.5 million as shown in Appendix F due to certain programs funded earlier that will rely on such funding during 2015;

(2) Specifically approve the proposed 2015 budget and savings for each of the programs sectors and sub-programs within each sector according to the values shown in Table 6, and consistent with the Commission's budget caps and targets requirements as shown in Table 8;

(3) Approve returning $1,800,000 associated with unspent and uncommitted funds from prior program cycles (2010 – 2012) through the Demand-Side Management Balancing Account for a one year period beginning January 1, 2015;

(4) Approve the proposal that no incremental funding be collected in revenue requirements for 2015 to fund the SoCalGas On-Bill Financing loan pool through the associated balancing account, resulting in an decrease of $1 million for 2015, to be adjusted through the annual regulatory account filing occurring in October 2014;

(5) Approve the proposal to redefine the current EE program cycle from 2013 – 2014 to a traditional three-year cycle consisting of the years 2013 – 2015, and likewise find it reasonable that funds authorized in D.12-11-015 for 2013 – 2014 and not spent remain available in 2015;

(5a) In the event the Commission determines that the 2013 – 2014 program years shall be evaluated as a two-year program cycle, SoCalGas similarly requests that funding associated with those two years remain available to spend during the cycle to meet emerging needs and ultimately its energy savings and program performance goals.

(6) Approve the energy savings goal for SoCalGas in 2015 as proposed in the Goals Ruling with a modification to Codes & Standards to remove the impact of interactive effects from electric measures, consistent with practice applied to a gas-only utility, resulting in a total goal of 25.3 MMTh, as shown in Table 4;

(7) Find reasonable the methodology and factors presented in Appendix E that translate, for the minority of its portfolio, *ex ante* savings estimating the impact of the DEER 2014 update, as instructed by the Scoping Memo;

(8) Find reasonable approving the SoCalGas portfolio with the cost-effectiveness values as shown in Table 5, reflecting a TRC of 1.32 including C&S as revised and spillover but without the SoCalREN, and TRC of 1.23 without C&S, spillover or the SoCalREN (and recognizing the latter value is 1.27 using the currently authorized and lower after-tax WACC that was not included in the provided SoCalGas E3 Calculator);

(9) Find reasonable the SoCalGas plans to leverage its program resources and offerings to partner with other utilities targeting transmission-constrained areas, including application of an alternative baseline methodology that can be applied to such efforts;

(10) Find reasonable the identified three areas of proposed changes to support Prop 39 efforts: additional technical assistance, increased incentives, and modified custom project processes, including application of an alternative baseline methodology that can be applied to such efforts;

(11) Approve the proposed budget for the Home Upgrade Program for 2015 to support enhancements to the SoCalGas program that are being pursued through existing available processes;

(12) Find reasonable the SoCalGas proposal to work with stakeholders to develop an alternative baseline methodology as outlined in Section VI.D.1. that is contemplated to be applied to the targeting locational IDSM and Prop 39 initiatives / projects;

(13) Find reasonable the budgets proposed to the various program sectors that will enable continued focus and support for water-energy measures and initiatives;

(14) Approve the SoCalGas proposal to increase program funding for the Residential HVAC market by $1.2 million to expand our focus in that area as described in Section VI.D.5;

(15) Approve the SoCalGas proposal to increase its Statewide Commercial Energy Efficiency Program budget by $1.6 million and its Statewide Agricultural Energy Efficiency Program budget by $1.9 million in 2015, relative to 2014 program budgets, to support the activities described in Section VI.D.6;

(16) Approve the SoCalGas proposal to increase its Statewide IDSM budget by approximately $250,000, relative to program year 2014, to continue expand its partnerships and also explore additional partnership opportunities as discussed in Section VI.D.7.;

(17) Acknowledge discontinuation of the Energy Challenger third party program consistent with SoCalGas testimony provided in its 2013 – 2014 program cycle application;

(18) Approve the other SoCalGas programs and activities that have no changes from the 2013 – 2014 program design;

(19) Approve the SoCalGas cost recovery mechanism as described herein;

(20) Direct that recalibration of the ESPI mechanism be performed through a Tier 2 Advice Letter within forty-five days following the final approval of the 2015 EE portfolio in coordination with the IOUs and Energy Division;

(21) Approve the proposed 2015 funding contingency plan to extend the existing energy efficiency program funding on a monthly basis, at a level representing the average monthly spending levels in 2014 by administrator until such time that the Commission could issue a decision on the 2015 funding levels;

(22) Authorize SoCalGas to collect in its 2015 revenue requirements an amount equivalent to the total incremental budget approved in the Phase I final decision for the SoCalREN; although SoCalGas does not itself propose these amounts, because it collects in rates the funding for the SoCalREN it is necessary for the Commission to authorize the appropriate level of associated revenue collections.

Dated at Los Angeles, California, on this 26th day of March, 2014.

Respectfully submitted,

*/s/ Steven D. Patrick*

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