Rule No. 38 Sheet 1

COMMERCIAL/INDUSTRIAL EQUIPMENT INCENTIVE PROGRAM

A. Applicability

Pursuant to Decision 18-05-006, effective May 10, 2018, this Schedule is closed to new contracts. N

The terms and conditions of this Rule shall apply to the shareholder-funded incentives applicable to the purchase of new or replacement commercial or industrial gas equipment to be installed and used by nonresidential customers within the Utility's service territory for energy-efficiency purposes (including fuel substitution) and/or the cost of feasibility studies. In order to receive an incentive, the customer must sign a contract with the Utility: either Form No. 6700-1 for equipment incentives or Form No. 6700-2 for feasibility study incentives. As part of an equipment incentive agreement, the customer must accept responsibility for purchasing, installing, and operating the equipment in the manner described below. Additionally, the customer may be required to sign an affidavit attesting that the incentive was a material factor in the decision to utilize the energy equipment identified in the agreement.

B. Program Description

The Commercial/Industrial Equipment Incentive Program is designed to demonstrate and evaluate the performance of nonresidential gas equipment under actual operating conditions in the Utility's service territory.

1. Purpose of the Program

   The Program is designed to help customers buy down the first-cost of qualifying high-efficiency equipment. The Program will also fund feasibility studies to evaluate the potential benefits of these kinds of gas equipment in commercially intensive locations throughout the Utility's service territory. The Program is open to existing and new nonresidential customers, on a first-come, first-served basis, based upon customer interest and qualifications.

2. Objectives of the Program

   a. Persuade nonresidential customers to install state-of-the-art equipment to reduce their overall energy cost and increase their productivity and/or profitability.

   b. Encourage and support manufacturers of gas equipment to develop and produce new, cost-effective and energy-efficient nonresidential equipment for southern California.

   c. Demonstrate the Utility's commitment to develop and promote new, alternative technologies with environmental and/or energy-efficiency benefits.

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B. Program Description (Continued)

2. Objectives of the Program (Continued)

d. Increase the amount of nonresidential gas equipment with high off-peak load usage by: L

1. better utilizing the Utility's pipeline capacity during the summer months, and |

2. reduce average operating costs by balancing system load. L

e. Demonstrate that innovative nonresidential gas equipment is a viable and environmentally beneficial alternative to traditional gas and electric technologies.

C. Customer Selection

All of the Utility's existing and new nonresidential customers are eligible to participate in the Program. Qualifying customers, subject to the availability of funds, may apply for and receive one shareholder-funded equipment incentive per building per year. The minimum term of obligation for a customer receiving a shareholder-funded equipment incentive is to operate the equipment as specified in the contract. The Utility has the option of seeking Commission approval for contracts of five or more years before making such commitments.

1. Application to the Program

The customer shall be required to complete an application after the Utility's representative determines the project meets all of the pre-approval screening criteria (see C.2.a. below). The Utility's representative will submit the application and other information to the Utility for evaluation.

2. Application Evaluation Process

An application will be completed after the Utility's representative evaluates whether the customer's project satisfies the following pre-approval screening criteria:

a. Pre-Approval Screening Criteria

The Utility's representative will assess the following specific information for each project to ensure the project meets the requirements for funding under the program:

1. the type of equipment being considered and whether its purpose is energy efficiency, fuel substitution, etc.;

2. the size or capacity of the equipment;

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C. Customer Selection (Continued)

2. Application Evaluation Process (Continued)

a. Pre-Approval Screening Criteria (Continued)

3. the total cost of the feasibility study and/or total cost to purchase and install the equipment; L

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4. the customer's estimated payback period and acceptable payback period; L

5. the customer's willingness to share relevant data and provide access to the facility;

6. the customer's industry and location in the Utility's service territory;

7. the customer's time requirements; and

8. whether the project will improve or maintain the energy efficiency of the customer’s facility (this may be demonstrated by a consultant's feasibility study or design engineer's evaluation).

b. Submitting the Application

The application will be submitted to the appropriate Approval Team at the Utility for approval.

c. Reviewing the Application

The level of shareholder-funded incentive to be provided by the Utility is a function of the cost of the feasibility study or first-cost of the gas equipment being considered, and on-going maintenance and operating costs, relative to those of the best alternative technology or electric equipment. The final evaluation for equipment incentives will be based on whether the shareholder-funded incentive will provide the customer with an acceptable payback period. The equipment incentive amount will be based on the customer's payback period.

1. Calculating the Payback Period

The payback period is calculated using the difference between the first-cost and operating costs of the gas equipment versus the existing or best available alternative equipment (including electric) along with any (gas or electric) utility incentives that may apply.

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C. Customer Selection (Continued)

2. Application Evaluation Process (Continued)

c. Reviewing the Application (Continued)

1. Calculating the Payback Period (Continued) N

The formula the Utility will use to determine the payback period is: L

$$\text{Payback Period} = \frac{\text{Difference in Purchase \& Installation Costs for Gas and Alternative Equipment}}{\text{Difference in Annual O\&M Costs for Gas and Alternative Equipment}}$$

The equipment incentive will be computed using data reflecting the specific circumstances of each customer and consistent with what the customer considers an acceptable payback period. L

2. Determining the Level of Incentive

The level or amount of incentive must be consistent with the following:

a. Feasibility Studies: up to 50% of the study cost, up to a maximum of $50,000 per study.

b. Equipment Incentives: up to 50% of the installed equipment cost, up to a maximum of $500,000 per project or, in the case of air conditioning, up to $300 per ton for high-efficiency gas cooling equipment.

d. Approving or Denying the Application

The appropriate Approval Teams will meet as needed to approve funding requests received by the Utility in the prior month. Within 90 days of the meeting where an application is presented for consideration, the Utility's representative will receive confirmation of the Approval Team's decision, and the amount of funding, if any. The Utility's representative will inform the customer of the Approval Team's decision, and if appropriate, the Utility's representative will prepare a contract (Form No. 6700-1, Equipment Incentive Program Agreement--Shareholder-Funded, "Agreement-1" or Form No. 6700-2, Feasibility Study Program Agreement--Shareholder-Funded, "Agreement-2") and an affidavit when applicable (Rule 38 Affidavit, Form No. 6700-1B, "Affidavit") for the customer's signature. In the Affidavit, the customer must attest, under penalty of perjury, that the incentive was a material factor in the decision to utilize the energy equipment identified in Agreement-1.

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D. Verifying Contract Performance N

Customer's equipment incentive is premised upon the customer installing and using the gas equipment as disclosed to the Utility. Customer could be subject to additional charges if the equipment is not installed and utilized as per Agreement-1 and Rule 38 Special Conditions Metering and Gas Usage, Form No. 6700-1A, when applicable. To verify contract performance, Utility may require some or all of the following:

1. proof of equipment purchase, delivery and installation;
2. Utility's visual verification of the installation and operation of equipment;
3. separate metering of affected gas equipment;
4. establishment of a facility-wide baseload gas consumption, normally based on the previous 24-month period; and
5. additional information as necessary to complete Utility's annual program report to the Commission. N