

Manke, Adam P

From: Kristjansson, Sue
Sent: Tuesday, April 21, 2015 11:15 AM
To: Schwecke, Rodger
Cc: Rendler, Daniel
Subject: FW: Preliminary Analysis of DOE Furnace Rule
Attachments: BIRAENERGY DOE Furnace Rule Preliminary Analysis 04-06-15.docx

Hi Rodger,

Have you had a chance to review the recommendation and preliminary report? Public comments will close on June 10th unless the DOE grants an extension, which is unlikely. In order to provide substantive comments we would need to engage consultants in conducting a more in-depth analysis of the data/inputs the DOE used as well as assess the software used to formulate their life-cycle cost analysis.

I also think that we should request that extension to the comment period, regardless of whether it is granted or not so we are on the record as having done our due diligence in conducting as comprehensive an assessment as possible in the timeframe allotted.

I would like to get the consultants going on this as soon as possible if that is the approach the company wants to take.

Let me know if you have any direction for me.

Thanks!

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From: Kristjansson, Sue
Sent: Tuesday, April 14, 2015 9:48 AM
To: Schwecke, Rodger
Cc: Rendler, Daniel
Subject: Preliminary Analysis of DOE Furnace Rule

Rodger,

I've attached the initial analysis (report) for the furnace rule. To save you a bit of time I've extracted some high level issues identified and listed them below with the corresponding page number you can review to get more context. I'd like to get some guidance on next steps.

My overall observation so far is that the legislative fix that has been approved by the AGA Board (Portfolio Approach) is a good one for California and could minimize the impact of the rule by extending the time it will take to move all furnaces to a 92% AFUE condensing model. I am not entirely confident that the legislative fix will move through the

political process without either being drastically modified or even eliminated, and if it does, it would then have to make it to the President's desk for signature and then to the DOE where the process and details would have to be established. I believe that either APGA or AGA, or both, will eventually file suit against the DOE. It seems to me that each action taken can and will eventually be used as a legal exhibit in some future litigation. In order to fully assess the revenue impacts to SoCalGas and determine the validity of the DOE LCC analysis we would have to take this to the next step. Having said all of that, my recommendation is that we establish our position against this action and move forward by doing the following:

- Based on this preliminary analysis, submit a request to the DOE to extend the comment period for an additional 90 days (to September 10th) to allow for a more detailed assessment
- Extend the contract for the technical consultant to conduct the deeper analysis on the DOE LCC analysis and the inputs/outputs (I am gathering scope and costs)
- Initiate the lobbying efforts by our DC office in support of AGA's proposed legislative fix
- Engage Regional Public Affairs to gain local support for AGA proposed legislative fix and support SoCalGas' position
- Employ a variety of methods to communicate and explain the situation to our customers
- Provide official opposition comments within the comment period, regardless of whether there is an extension or not, detailing the concerns we have regarding the impact on our customers

Item #3 – page 4

- Increased costs of minimum efficiency gas furnaces, particularly in the retrofit market where the switch from non-condensing to condensing furnaces require changing the flue, make fuel-switching a potentially attractive alternative to consumers on a cost, rather than performance basis.

Item #4 – page 5

- The DOE uses extremely low values for marginal electricity prices in California within their Life Cycle Cost (LCC) analysis;

Item #5 – page 5

- With respect to retrofits, we contend that the actual costs are substantially higher than those used by the DOE.

Item #6 – page 5 (significant argument)

- Low-income customers in the SoCalGas' territory and other parts of the U.S. will bear an unusually heavy burden of the standards;

Item #7 – page 5

- The DOE likely overestimates the lifespan on the typical gas furnace at 21.5 years in their current LCC analysis

Item #9 – page 6 (this is critical considering the payback period that the DOE cites as the point at which fuel switching will be considered is 3.5 years – most homeowners keep their homes an average of 5 years)

- Despite some potentially low cost estimates input into their analyses, the DOE Life Cycle Cost (LCC) analysis has a payback time of 11.2, 10.6 and 12.5 years for replacing an 80% efficient furnace with a 92% efficient model for the country "Overall", the "North", and the "Rest of country", respectively.

If you have any questions please let me know.

Thanks!

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