

Manke, Adam P

From: Kristjansson, Sue
Sent: Tuesday, April 14, 2015 3:43 PM
To: Schwecke, Rodger
Cc: Mackay, Sean C; Rendler, Daniel
Subject: Additional Information re: Furnace Rule

Rodger,

Sean and I participated in the weekly AGA Furnace Rule Legislative call this morning and it seems like the AGA recently adjusted their legislative plan. The manufacturers were not in favor of the portfolio approach so after meeting with AHRI (manufacturers association) they decided to submit a different option. They will now submit language that if adopted would suspend the rule from moving forward and instead take it back to the DOE to form a working group of concerned stakeholders tasked with developing an agreement that is acceptable to all.

I don't think this changes anything in my earlier recommendation, with the exception of the legislative advocacy would now support the AGA's new proposal. Sean and I talked after the call and we agreed that this doesn't change the fact that this will, in all likelihood, go to litigation.

The recommendations remain the same. I will keep you informed of any additional changes but it seems like things will be moving somewhat quickly now considering Congress' calendar.

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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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