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**To:** [Berman, Janice S](#); [Zelmar, Karen](#)  
**Subject:** Thoughts on Furnaces and Gas Efficiency  
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Jan/Karen:

Federal standards for gas furnaces pre-date the fall of the Berlin wall. DOE's analysis shows that condensing furnaces are cost effective across all size ranges. PG&E's C&S team has verified that condensing furnaces are cost effective and feasible for California.

Most of AGA members are not decoupled utilities so it's not surprising that their position differs from PG&E. The State of California, the CPUC, and the CEC have a much stronger emphasis on energy efficiency, demand response, and renewables than any other state in the nation. And PG&E has been considered a leader in these efforts.

For at the last 15 years, PG&E has supported strong standards for gas efficiency during state and federal proceedings. Our role has been to advocate with the expectation that DOE and CEC mediate between industry and advocates. Public proceedings are rigorous and, more often than not, they produce standards that are weaker than could be adopted based on total societal cost effectiveness analyses.

PG&E has been a national utility leader in support of advocates such as ACEEE and NRDC. During our conversation with Nick last week, I think I heard him say that he expects PG&E to harmonize its position with AGA on furnaces and future standards. If so, there are a number of consequences.

- The AGA and industry position argues for a new standard that is no standard at all, but a continuation of the status quo with no savings.
- At a corporate level, abandoning our leadership in gas efficiency is a huge shift for PG&E that damages our brand, and is a disservice to our customers especially the over 50% that are renters (since rents are based primarily on location and do not increase based upon HVAC equipment efficiency). This is in conflict with PG&E's advertisements about PG&E helping customer save energy and is a leader in energy efficiency. This shift in position will not go unnoticed.
- Aligning ourselves with AGA will damage our standing with the CEC, which leads codes and standards for the State. The Warren Alquist Act mandates our support and PG&E has traditionally supported the CEC's position on federal standards.

[§ 25402.7. Utility support for building standards \(a\) In consultation with the commission, electric and gas utilities shall provide support for building standards and other regulations pursuant to Section 25402 \[bldg stds\] and subdivision \(b\) of Section 25553 including](#)

appropriate research, development, and training to implement those standards and other regulations.

- Abandoning C&S leadership will damage PG&E's relationship with CPUC. For example, CPUC staff has expressed ongoing concern with SCG's position on gas efficiency codes and standards during the last year since they are viewed as aligned with AGA and industry.
- The C&S Program has long been viewed as the primary means of achieving CPUC and CEC state policy goals.

D. 12-05-015. The Staff Proposal calls for "a redesign of the statewide codes and standards program," placing it in "a central strategic position within the IOU energy efficiency portfolio."

- Gas efficiency is important to our customers, in particular, low income customers. Raising the cut-off for condensing furnaces to 65 or 70 kBtuh means that multi-family and low income customers more generally will continue to pay high utility costs since smaller furnaces will continue to be subject to equipment standards set more than 30 years ago. DOE also did not analyze the split incentive problem faced by tenants who pay the cost of inefficient furnace operation but cannot make choices concerning what is installed. Approximately 50% of our customers are tenants for whom appliance efficiency standards provide consumer protection. This is truly standing with the customers.
- Given the CEC's definition of ZNE, which is based on time dependent valuation of gas and electricity at the site, low efficiency furnaces will translate to larger rooftop PV systems required to offset gas usage (which is a large cost for our customers). More generally, achieving in ZNE across the state will be more difficult.
- Efficient use of natural gas is an important part of achieving California's climate goals, and federal standards preempt CA from setting its own standards for furnaces and other "covered" appliances. If the DOE does not set an increased efficiency standard now, it could be almost 2030 before the next DOE furnace standard. This will have detrimental impact on the state's GHG reduction and state policy goals.
- PG&E's C&S program has a strong reputation and is trusted by the CPUC and the CEC and is considered one of the most successful programs within the PG&E portfolio. Failure to advocate for increasing efficiency standards potentially weakens the program and PG&E's EE leadership. More generally, the long view of EE administration compels us to achieve regulatory requirements and customer satisfaction improvement opportunities at least-cost and least rate-impact. It is best for PG&E and its customers to pursue the least-cost approach even if it puts us at odds with industry.

The alternative to viewing ourselves as outliers is to see ourselves as leaders. How can we build allies within the company and what may I do to further that effort? I appreciate any

support you might be able to provide.

Thank you.

Pat Eilert

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