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Committee of Consumer Services

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Date: August 23, 2007

Subject: Questar Gas DSM Monitoring and Verification program.

## 1 Background

On December 5, 2006, Questar Gas (Questar or Company) filed an Application in Docket 06-057-T01 “For Expedited Approval Of Demand Side Management Programs And A Market Transformation Initiative.” The initial set of DSM programs had been developed, in part, based on discussions and input from a DSM Advisory Group that was formed in early 2006.

On December 22, 2006 the Division, SWEEP, and the Committee filed memoranda, which recommended approval of the Company’s Application. In addition to recommending that the initial set of DSM programs be approved, the Committee stated “that more serious consideration needs to be given to program monitoring and evaluation, as well as how overall success of the DSM experiment will be judged at the end of the three-year pilot period.”

On February 5, 2007, the Division solicited input from DSM Advisory Group members regarding the criteria that should be used to measure the effectiveness of DSM programs. The Committee provided a “Discussion Document for a Questar Monitoring and Evaluation Program,” which was discussed at the March 7, 2007 DSM Advisory Group meeting.

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On June 28, 2007 the Company circulated a draft “QGC 2007 Energy Efficiency Program Evaluation Plan” (Evaluation Plan) to the DSM Advisory Group and the proposed Evaluation Plan was discussed at an Advisory Group meeting later that day. The Committee’s initial concerns were: (1) the process by which experts would be retained; and (2) who would direct the work of the experts. We also indicated the Committee would provide further comments once we had a chance to thoroughly review the proposed Evaluation Plan.

On July 10, 2007 the Committee sent a memo to the DSM advisory group, which specified areas of agreement and disagreement with the proposed Evaluation Plan. (See Attachment 1)

On July 26, 2007 the Division issued a “Report and 1st Quarter Review of 2007 QGC DSM programs, Docket No. 05-057-T01.” The Report includes a revised Evaluation Plan that contemplates the Division formulating and issuing an RFP to retain experts to perform certain monitoring and verification tasks and the Division directing the work of the experts. The following discussion and recommendations are a response to the Division’s Report.

## 2 Discussion

The Committee generally supports the Evaluation Plan filed by the Division. Since customer money funds these DSM programs, we believe it is imperative that an objective and rigorous quantitative analysis be performed to ensure that the programs are cost effective. The Committee has noted the importance of this accountability process in our various responses in the CET docket and has some specific suggestions to improve upon the Division’s evaluation plan.

The Division’s proposed Evaluation Plan discounts first year program evaluation, which is inappropriate. While the Committee acknowledges that the first year of any DSM program may be associated with various “growing pains” and challenges, we strongly believe that some form of measurement is appropriate.

The Committee is concerned about the Company’s characterization of the purpose of the M&V plan which is embodied in the title of the proposed plan emphasizing evaluation as opposed to monitoring and verification. Both the First Year Limited Evaluation (“FYLE”) and the Ongoing Evaluation (“OE”) characterize the purpose of the program as one to “Identify,” “inform” and “improve” the implementation and management of Questar’s energy efficiency programs. The Committee agrees that these are important aspects of the M&V plan, and is not opposed to including them. However, these purposes are not the primary reasons for having such a plan.

The primary function of the M&V plan is one of monitoring the programs relative to the terms and conditions under which they were proposed, and verifying that these DSM programs did achieve their anticipated customer participation levels and the savings upon which approval was granted. Program improvement comes after these two tasks have been completed. The cost of these programs is born by ratepayers who participate and those who do not. Therefore, ensuring that these programs are cost-effective is the critical first step.

The Committee is also concerned about the emphasis placed on each of the program components (process evaluation, data gathering, and impact evaluation) and how those are proposed to change between project periods (FYLE and OE). Generally, we agree with the Company's proposed program components which are comprised of these three parts. We would however, encourage the Commission to not allow a dampening on impact evaluation in the FYLE. We also question the extent to which the FYLE process evaluation component should be overly emphasized relative to other program components.

While we agree that process evaluation is important, and should be included in the overall M&V process, the need for considerable emphasis on this component may be mitigated given the nature of what we understand has been the relationship between the Company and its third-party participants in DSM program development and implementation. The Committee recommends a general component weighting which place lower emphasis on process evaluation in both FYLE and OE than the Division proposed. Further, we would envision a balancing of emphasis on data gathering and impact evaluation in the FYLE process, and considerably larger emphasis on impact evaluation in the OE process.

Our last concern on component emphasis rests with Company's proposal to include "third-tier" benefits in any program evaluation. The Committee does not believe this is an appropriate part of the M&V process, particularly one that will have limited resources. The Company's program should instead, focus on the use of metrics clearly associated with cost-effectiveness, particularly for programs that were approved on this basis.

Given the Committee's fundamental disagreement with the Division and the Company regarding the allocation of effort within the Evaluation Plan, the Committee suggests that all parties keep an open mind on this issue at the current time and allow the relative emphasis be addressed explicitly by the consultants retained as independent, third-party evaluators.

Finally, the Committee appreciates the Division's efforts to incorporate our concerns relating to the independence of experts in the proposed Evaluation Plan. We would like to continue to provide input into the development of the RFP that will be issued by the DPU to hire third-party evaluators.

## 3 Recommendations

Based on the discussion above, the Committee recommends:

1) First year program estimates should be compared to actual participation levels and savings in order to evaluate whether the DSM programs are "ramping up" in the fashion originally envisioned.

2) The relative emphasis in the Evaluation Plan should be addressed by

the consultants retained as independent, third-party evaluators. In its RFP, the Division should require bidders to describe in detail the methods and procedures they propose for DSM program evaluation.

3) The Division should work with the Committee and other interested parties associated with the DSM Advisory Group in the preparation of the RFP that will be issued to retain third-party evaluators.

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