BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE JOINT APPLICATION OF QUESTAR GAS COMPANY, THE DIVISION OF PUBLIC UTILITIES, AND UTAH CLEAN ENERGY, FOR THE APPROVAL OF THE CONSERVATION ENABLING TARIFF ADJUSTMENT OPTION AND ACCOUNTING ORDERS	)	Docket No. 05-057-T01

Surrebuttal Testimony of

Howard Geller

on behalf of

Southwest Energy Efficiency Project (SWEEP) and Utah Clean Energy (UCE)

August 14, 2006

Introduction

Please state your name and business address.

A. My name is Howard Geller. My business address is 2260 Baseline Rd. Suite 212, Boulder, Colorado 80302.

For whom are you testifying?

A. I am testifying on behalf of the Southwest Energy Efficiency Project and Utah Clean Energy (SWEEP/UCE).

Did you testify previously in this docket?

A. Yes, I submitted direct testimony on January 23, 2006. I submitted my professional qualifications with that testimony.

What is the purpose of your surrebuttal testimony?

A. In my testimony I will respond to criticisms of the natural gas demand-side management (DSM) proposal and the decoupling proposal of the joint applicants made by witnesses Dismukes, Higgins, and Wolf.

Q. **Do you agree with Dr. Dismukes regarding the potential to implement gas DSM programs that do not result in a loss of sales revenue?**

A. Dr. Dismukes claims starting on p. 10 of his rebuttal testimony that DSM measures do not necessarily result in lost sales and lost revenues. In this regard, he points to load management programs that shift energy usage from peak to off-peak periods.

But his discussion here is relevant to electricity DSM programs, not natural gas DSM programs. While there are electricity DSM programs that result in a shift in electricity use from peak to off-peak periods, there are no natural gas load shifting programs as far as I know. All ten of the utilities with natural gas DSM programs that I referred to in Exhibit HG-2 of my direct testimony have achieved gas savings from their gas DSM programs, meaning the programs reduce revenues in the short run.

Q. **Does Dr. Dismukes suggestion on p. 11 of his testimony that the Commission require the Company to promote only load management programs that reduce peak usage but not total gas usage makes sense?**

A. No it does not. As explained above, gas DSM programs result in reduced natural gas use, not load shifting from peak to off-peak periods.

Q. **Do you agree with Dr. Dismukes (pp. 12-13) that the Ratepayer Impact Measure (RIM) test is an appropriate cost effectiveness test for the Commission to consider for evaluating the cost effectiveness of potential DSM programs?**

A. No, I do not. The Total Resource Cost (TRC) test should be used as the primary test for determining DSM program cost effectiveness. This test indicates whether or not DSM program provide benefits that exceed costs to society (not including environmental and other externalities) as a whole, and therefore contribute to least cost energy services. It is the primary test used in Utah for evaluating the cost effectiveness of electricity DSM programs (as well as the primary test used for most utility companies across the country), and it should be used in the same way for natural gas DSM programs.

Q. **Do you agree with Dr. Dismukes equity concerns (pp. 38-41)?**

A. Dr. Dismukes has raised a number of issues that may not in fact be present if and when the CET is adopted and gas DSM programs are implemented. He first raises the possibility of narrowly defined DSM programs that do not give all customers the opportunity to participate. But the CET by nature does not encourage narrowly defined DSM programs. In fact, I believe the CET encourages the Company to implement well-funded, broadly based DSM programs because it protects the Company from net revenue loss as such programs are implemented. Dr. Dismukes also raises the possibility of customers who have implemented all available energy efficiency measures already and therefore would not have the ability to participate in gas utility DSM programs. But he provides no evidence that such customers exist in the Questar Gas Company service area, or the prevalence of such customers if they do exist.

Q. **Do you agree with Dr. Dismukes that performance standards and incentives (pp. 48-51) are an important part of DSM programs?**

A. I would agree with Dr. Dismukes that performance standards and incentives can be valuable mechanisms for stimulating effective utility DSM programs. Dr. Dismukes provides a number of examples of states where this is the case, and there are others such as Minnesota. But I would not go so far as to state that performance standards and incentives are an essential part of DSM programs, and I would note that PacifiCorp (Rocky Mountain Power) does not have performance standards or

incentives and in spite of this is implementing a set of well-funded, broad-based, and cost-effective DSM programs in the state.

Q. **Do you agree with Dr. Dismukes comments (pp. 59-60) about Commission approval of cost recovery for DSM programs?**

A. Dr. Dismukes reviews and suggests use of the Commission approval process for DSM programs implemented by PacifiCorp in Utah. I agree that this process is working well and would be appropriate for natural gas DSM programs, if Questar Gas Company proceeds with such programs. The Commission, not the DSM Advisory Group, should have ultimate authority for approving implementation of gas DSM programs. However, the DSM Advisory Group, which includes Commission Staff members, is an appropriate vehicle for making recommendations to the Company for potential new or modified DSM programs.

Q. **Would you like to comment on the alternative DSM incentive proposals recommended by Dr. Dismukes in his supplemental rebuttal testimony?**

A. Yes I would. Dr. Dismukes's first proposal is for a potential incentive/penalty based on the cost effectiveness of DSM programs, and his second option is for a potential incentive/penalty based on the level of natural gas savings resulting from these programs. As I stated above, I believe that these types of incentive/penalty mechanisms can be valuable but should be viewed as complements to and not replacements for decoupling. Furthermore, I believe an incentive/penalty provision based on energy savings is preferable to one based on program cost effectiveness. Basing the incentive/penalty on overall cost effectiveness would tend to drive Questar

Gas towards programs that have a very high benefit-cost ratio and away from programs that are less cost effective, such as residential programs in general and programs for low-income households in particular. This is not good public policy in my view. I believe that encouraging maximum cost-effective energy savings is a better approach, and would be accomplished if the incentive/penalty (should one be adopted) be based on energy savings achieved.

Dr. Dismukes's third alternative is termed a statistical re-coupling approach. It is a modification of full revenue decoupling as proposed by the joint applicants. While I continue to support and recommend adoption of full revenue decoupling (i.e., the proposed CET), I do not object to a form of statistical re-coupling should the Commission prefer this approach. In particular I would not object to adjusting the true-up amounts for either changes in natural gas prices or economic growth, relative to those assumed in the projection of future gas sales and revenue. However, I object to including an adjustment for "customer-initiated efficiency" as suggested by Dr. Dismukes. Such energy savings result from a wide range of factors including building energy codes, appliance efficiency standards, and changes in consumer behavior. It is difficult to separate the energy savings resulting from these factors from the savings from utility energy efficiency programs. Furthermore, Questar should not face less recovery of fixed costs if it contributes to the success of codes and standards or changes in consumer behavior that lead to greater conservation, for example through education and training initiatives.

Q. **What issues raised by Mr. Higgins do you wish to respond to?**

A. Mr. Higgins notes on page 12 of his testimony that average gas usage per customer declined about 36 percent from 1980 through 2005, and he states, "Clearly, customers have been reducing their gas usage over a sustained period of time, despite the utility's apparent disinclination to encourage conservation."

Q. **What response do you have to this statement?**

A. Declining natural gas usage per customer has occurred over the past 25 years for a number of reasons some of which are a result of conscious decisions by customers but others are not. For example, one of the reasons gas usage is declining is because the federal government adopted minimum efficiency standards on natural gas furnaces and water heaters. New furnaces and water heaters are more efficient than older furnaces and water heaters that have been wearing out, irrespective of whether or not consumers seek efficient products. Likewise, building energy codes in Utah have been strengthened over time. New homes are more efficient than older homes; e.g., they are built tighter and have higher levels of insulation, due to this public policy.

Q. Can you provide any insight to the various drivers of the past decline in usage per customer?

A. Yes. I would say the reasons for past declines are: 1) new appliance efficiency standards; 2) improved building codes; 3) voluntary customer adoption of building and equipment efficiencies that exceed minimum codes and standards; 4) customer conservation through behavioral changes such as lower thermostat settings in the winter, in part motivated by rising natural gas prices; and 5) demographic changes

such as declining average household occupancy levels over time. However, I have not analyzed the relative magnitude of each of these effects.

Q. Is there additional potential for future declines in usage per customer?

A. Yes. As I indicated in my direct Testimony, the GDS study shows a potential for 20% gas savings at the end of the 10-year implementation period, assuming widespread adoption of all cost-effective gas savings measures. This study is thorough and well-grounded in my view.

Q. **What is the implication of this situation for the decoupling proposal put forward by the joint applicants?**

A. Decoupling as proposed by the joint applicants will compensate the utility for losses in the utility's authorized fixed cost recovery due to conservation efforts of all types—those resulting from appliance efficiency standards, building energy codes, customer response to rising gas costs, or company-sponsored DSM programs.

Q. **Is it reasonable to compensate the utility in this manner?**

A. Yes, this is fair and reasonable in my view. I do not think the gas utility should be financially penalized due to conservation efforts resulting from federal policy, state policy, or its own conservation programs. Federal and state codes and standards are generally outside the scope of a gas utility's normal business operations, although some utilities, such as Questar Gas, support the adoption and implementation of effective codes and standards as part of their DSM efforts, for example by supporting the adoption of new appliance efficiency standards or by educating and training

builders on ways to comply with new energy codes. It is important to ensure that utilities are not financially penalized if they support the adoption and implementation of cost-effective codes and standards (just as it is important to ensure they are not penalized if they implement effective DSM programs), and decoupling as proposed by the joint applicants will achieve this outcome.

Q. **What issues raised by Ms. Wolf do you wish to respond to?**

A. Ms. Wolf raises a number of issues related to energy consumption, energy efficiency, and low-income households. On page 14 she states that low-income households will be hurt if they face higher rates due to decoupling but only get limited additional assistance from the proposed $250,000 contribution to the state's low-income weatherization program. But she does not acknowledge that there could be other ways that low-income households could benefit from natural gas DSM programs enabled by decoupling as proposed by the joint applicants. For example, the Joint Application states that during the Pilot Program the Company will consider programs that involve education and provision of low-cost efficiency measures to a large number of low-income households. Examples include distribution of low-cost conservation measures such as low-flow showerheads and faucet aerators for free to low-income households. Or the utility could offer to pay for most or all of the cost of other conservation measures, such as programmable thermostats or insulation, purchased by low-income households. In other words, it is not reasonable to conclude that low-income households, as a class, will be automatically harmed by utility DSM programs and the proposed CET policy.

Q. **What about the issue of timing of decoupling and gas DSM programs raised by Ms. Wolf?**

A. Ms. Wolf on p. 15 of her testimony objects to enacting decoupling before actually starting gas DSM programs. She advocates first developing cost-effective energy efficiency programs that are ready to be implemented before the issue of utility incentives and disincentives is addressed. In my view this concern has merit although it appears to be overly negative. I believe that Questar Gas Company is making a good faith effort to develop a robust set of gas DSM programs in a timely manner, as evidenced by the preparation of the DSM Market Characterization Report and draft DSM Plan Outline. I believe that Questar will move forward with program implementation, if such programs are approved by the Commission, in a timely manner should the proposal of the joint applicants be approved. If this is the case, I believe there is a high likelihood that customers as a whole will benefit through lower net energy service costs, based on the experience of other utilities that have implemented gas DSM programs.

Q. **What do you recommend the PSC do with respect to the issue of timing of decoupling and gas DSM programs?**

A. Adopting decoupling first as a way to enable gas DSM programs to go forward is a reasonable proposition in my view. However, I also think it would be reasonable for the Commission to order the utility to come forward with specific and comprehensive DSM program proposals within a set period of time, say within two to three months of issuing its order approving decoupling. This would provide additional assurance that Questar Gas Company will fulfill its pledge to move ahead with gas DSM

program development and implementation in a timely manner if decoupling is approved.

Q. **What other benefits could result from approval gas decoupling and gas DSM programs?**

A. The reduction in aggregate demand for natural gas through adoption of energy efficiency measures will put downward pressure on natural gas commodity prices. Studies by both the American Council for an Energy-Efficient Economy (ACEEE) and Lawrence Berkeley National Laboratory confirmed that reduced gas demand will have this effect and demonstrated how significant it could be at the national level.[1]

Q. **What about Ms. Wolf's contention, referring to my direct testimony, that gas utilities with decoupling mechanisms invest among the smallest amounts in gas DSM programs as a fraction of their retail sales revenue?**

A. Ms. Wolf makes this comment at the top of p. 18 of her testimony. But this is not a correct interpretation of the information I presented and referred to in my direct testimony. My testimony on p. 13 pointed out that the SWEEP survey of gas utility DSM programs found that utilities that have decoupling mechanisms or are eligible for shareholder incentives tend to spend more on gas DSM programs than utilities without these policies. Furthermore, the SWEEP survey pointed out that the three utilities with decoupling (Northwest Natural Gas, PG&E, and SoCal Gas) have been

[1] R.N. Elliott and A.M. Shipley. *Impacts of Energy Efficiency and Renewable Energy on Natural Gas Markets: Updated and Expanded Analysis.* Washington, DC: American Council for an Energy-Efficient Economy, April 2005. R. Wiser, M. Bolinger, and M. St. Clair. *Easing the Natural Gas Crisis: Reducing Natural Gas Prices through Increased Deployment of Renewable Energy and Energy Efficiency.*LBNL-56756. Berkeley, CA: Lawrence Berkeley National Laboratory. Jan. 2005.

or are now expanding their DSM programs substantially relative to the funding level in the year (2004) for which data were collected and reported in the SWEEP survey.

Q. **Can you provide further data substantiating this point?**

A. Yes I can. In California, where decoupling has been adopted, gas utilities are expanding their DSM programs very rapidly. The three gas utilities (PG&E, SoCal Gas Co., and San Diego Gas & Electric) combined spent approximately $46 million on gas DSM programs in 2004, $66 million in 2005, and are projected to spend $90 million on these programs in 2006.[2]

Q. Does this conclude your testimony?

A. Yes it does.

[2] Data based on California Public Utilities Commission Decisions 03-12-060, 04-12-049, 05-05012; CPUC draft decision A.05-06-004; and utility applications A.05-06-004, A.05-06-011, A.05-06-015, and A.05-06-016.