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State of Utah
Department of Commerce
Division of Public Utilities

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MEMORANDUM

To: Public Service Commission

From: Division of Public Utilities
Philip Powlick, Director
Energy Section
Marlin H. Barrow, Technical Consultant
Artie Powell, Manager

Date: December 23, 2009

Subject: Docket No. 09-057-15, Questar Gas DSM Budget for 2010.

ISSUE:

On October 1, 2009, Questar Gas Company (QGC) filed an application with the Utah Public Service Commission (PSC) for approval of its Demand Side Management (DSM) programs and Market Transformation Initiative budget for 2010.

RECOMMEND APPROVAL:

The Division of Public Utilities (Division) has reviewed the Application, as filed, and recommends to the PSC approval of QGC's 2010 DSM budget with the following additional recommendation:

1. In addition to the current requirement that the Company report to the Commission when any program reaches 90% of its budget, if any program reaches fifty percent (50%) of its budgeted amount before June 2010 or eighty percent (80%) by August 2010, QGC must notify the Commission of the possibility of exceeding the allowed budget for that program if the present trend continues for the remainder of the year. At such a time, the Division may indicate a desire to receive monthly reports updating the status of those programs.

DISCUSSION:

DSM Pilot Program Budget History:

The original Demand Side Management programs and Market Transformation Initiative were the products of a collaborative effort of interested parties working with QGC to provide input and to design programs to benefit QGC's GS rate class by reducing their usage of natural gas through programs designed to improve the efficiency of natural gas consumption by those GS rate customers. The process began with QGC's CET application to the PSC on December 16, 2005 in Docket No. 05-057-T01. Subsequent to that initial filing in Docket No. 05-057-T01, there were technical conferences and numerous meetings with the parties in that case.

During this period, an informal DSM working group was created. This working group, which consisted of members representing the PSC, Office of Consumer Services, the Division, QGC, Salt Lake CAP, Utah Weatherization, SWEEP, Utah Clean Energy, Utah Governor's Office, Dept. of Natural Resources and Energy Strategies met on seven separate occasions beginning March 1, 2006 through September 21, 2006. In this time period, initial work on developing DSM programs began and continued through to the time when the PSC, in an order¹ issued on October 5, 2006, established a formal DSM Advisory Group and gave QGC 60 days to present DSM programs to the PSC for its review.

The Advisory Group met on November 1, November 21 and on December 1 of 2006 to review, refine and provide feedback on the work that QGC and its consultants, Nexant and Portland Energy Conservation, Inc. (PECI), put into the DSM program development. The results of those efforts (filed with the PSC on December 5, 2006) included a first year budget for the DSM programs totaling \$6.989 million.

The Advisory Group continued to meet during 2007, when programs were reviewed and the QGC reported on market transformation efforts and program participation levels. Changes to existing programs and recommendations for new programs were reviewed and discussed by the

¹ PSC Order, Docket No. 05-057T01

Advisory Group. In a January 16, 2007 Order issued in Docket No. 05-057-T01, the Commission ordered the Company to submit a second year budget by October 1, 2007 and a third year budget by October 1, 2008 for the proposed DSM programs and the market transformation initiative.² The Company filed with the PSC on October 1, 2007 in Docket No. 07-057-08 a second year budget in the amount of \$10.500 million. The Company filed with the PSC on October 1, 2008 in Docket No. 08-057-22 a third year budget totaling \$17.787 million for its existing DSM programs and its ongoing Market Transformation Initiative.

ThermWise Weatherization Program Unanticipated Participation

In March 2009, QGC filed an application with the PSC asking for tariff changes³ in the Third Year Budget for Demand Side Management Programs and Market Transformation Initiative to reduce the rebate amounts for the insulation measures in the ThermWise Weatherization and Multi-Family Programs. This request for reduced rebate amounts in insulation measures was the result of fundamental changes in the market dynamics for insulation due to a decrease in insulation material costs and an increase in the number of insulation contractors participating in the program. The combination of these two factors resulted in a dramatic increase in the number of program participants during the first quarter of 2009, resulting in the ThermWise Weatherization Program spending \$8.796 million, which exceeded its annual budget by 79%. Total first quarter DSM expenditures were \$12.134 million. By the end of May 2009, the Weatherization rebates had grown to \$17.171 million, prompting the Company to request from the PSC, in a letter dated June 30, 2009, increased DSM funding of \$40.656 million.

On August 13, 2009, QGC filed the 2nd Quarter DSM results report that showed total DSM expenditures reaching \$30.837 million, an increase of \$6.555 million for June alone, with the Weatherization costs accounting for \$4.809 million of that increase. The Division, in a memo dated September 1, 2009, recommended interim approval of the request to increase DSM funding to \$40.656 million and, because \$30.5 million had already been spent, the Division

² PSC Order, Docket No. 05-057-T01, p9 #7 & #8.

³ Docket No. 09-057-T04

requested monthly updates on DSM expenditures as well as projections on expenses for the rest of the year. The PSC granted this request.⁴

On October 14, 2009, QGC provided an updated DSM forecast with actual expenditures through August, 2009. July and August showed Weatherization expenses of \$2.701 million and \$2.395 million respectively with an updated total annual estimate of \$46.751 million for DSM programs. Weatherization represented \$31.632 million of that total estimate. The estimated total DSM program expenditures had grown \$6.095 million from July to October with Weatherization's \$4.875 million accounting for 80% of the total increase.

Updated Forecast

QGC has provided an updated forecast with actual results through October. The updated forecast shows an estimate of \$46.254 million in DSM expenditures for 2009, a decrease of \$0.497 million from the previous forecast, with \$42.268 million spent YTD October, 2009. Total Weatherization expenditures are forecasted to be \$30.922 million, a decrease of \$0.710 million from the previous forecast.

2010 DSM Budget Request

The DSM Budget for 2010 is the first DSM Budget submitted that goes beyond the three year pilot program established in Docket No. 05-057-T01. The model used to calculate the Benefit/Cost ratios has been updated to reflect current natural gas market price projections⁵ and GS rates. Because assumed natural gas prices are lower in the 2010 forecasts than they were in prior years forecasts and cost-benefit calculations, cost benefit test ratios for the 2010 programs are generally lower than in prior years. Nevertheless, the programs remain cost effective and the Division recommends their continuation.

⁴ PSC Order, Docket No. 09-057-22, September 21, 2009

⁵ Gas prices reflect Opal, Wyo. spot market prices beginning in 2010 and projected for 10 yrs by CERA. The GS rates are those rates effective Oct. 1, 2009 and inflated annually by Global Insight's CPIU.

PLAN SUMMARY

Table 1 summarizes QGC's proposed 2010 DSM Budget by program with a comparison to the forecasted 2009 expenditures as of October 31, 2009.

As shown in Table 1, the DSM Budget for 2010 is \$36.125 million (Col D Ln 14). This is 21.9% below the estimated DSM costs for 2009.

Table 1: DSM Energy Efficiency Report Summary									
QUESTAR GAS COMPANY									
DSM ENERGY EFFICIENCY REPORT									
2010 Budget and 2009 Estimate									
DOCKET NO. 09-057-15									
A	B	C	D	E	F	G	H	I	J
	2010 Estimated Participants	2009 Estimated Participants	2010 Budget (000)	2009 Projected Costs (000)	% 2010 Budget over (under) 2009 Forecast	2010 Dth Savings*	2009 Dth Savings*	2010 B/C Ratio	2009 B/C Ratio
ThermWise Appliance	32,646	37,570	\$ 5,229.1	\$ 5,667.7	-7.7%	128,794	145,081	1.2	1.9
ThermWise Mult-family	12,530	9,783	\$ 3,218.1	\$ 4,235.3	-24.0%	21,049	62,475	0.7	2.5
ThermWise Builder	2,593	3,626	\$ 2,018.4	\$ 2,320.6	-13.0%	34,643	50,515	1.1	1.9
ThermWise Business	1,847	827	\$ 895.6	\$ 602.5	48.7%	51,424	23,818	1.7	2.4
ThermWise Custom Business	15	5	\$ 357.8	\$ 82.6	333.1%	7,513	5,675	1.1	2.0
ThermWise Audit	3,773	2,884	\$ 718.5	\$ 658.0	9.2%	9,699	8,419	0.7	0.9
ThermWise Weatherization	91,581	86,721	\$ 21,831.3	\$ 30,922.1	-29.4%	512,429	553,492	1.7	2.4
Market Transformation	NA	NA	\$ 1,356.5	\$ 1,265.8	7.2%	NA	NA	0.0	0.0
Low Income Weatherization	NA	NA	\$ 500.0	\$ 500.0	0.0%	NA	NA	0.0	0.0
Total	144,985	141,416	\$ 36,125.3	\$ 46,254.5	-21.9%	765,551	849,475	1.4	2.1

*Savings reflects the net Dth deemed savings based on actual participants with an 80% net-to-gross ratio applied.

Table 2 reflects the results of the 2010 DSM Budget by Customer Rebate amounts and Program Costs with the California Benefit to Cost Test Ratio Results.

Table 2	ThermWise 2010 DSM Program				
	Thousands				
	2009 3Q Actual YTD	2009 Budget	2009 Projected Costs	2010 Budget	% 2010 Budget over (under) 2009 Forecast
Customer Rebates	34,373.1	10,986.6	38,448.7	26,488.3	-31.1%
Program Costs	5,955.8	6,800.7	7,805.8	9,637.0	23.5%
Total Costs	40,328.9	17,787.3	46,254.5	36,125.3	-21.9%
Projected Dth Savings *	708.5	320.5	849.5	784.6	-7.6%
Participants	118.4	61.9	141.4	145.0	2.5%
Total \$ / Dth Savings (\$0.00)	\$ 56.92	\$ 55.50	\$ 54.45	\$ 46.04	-15.4%
California Test Results					
Total Resource Cost Test B/C	2.2	1.8	2.1	1.4	
Participants Test B/C	2.5	2.5	2.5	2.2	
Utility Cost Test B/C	2.8	2.4	2.9	2.1	
Rate Payer Impact Test B/C	1.9	1.7	1.9	1.2	

PROGRAM REVIEW

The existing DSM programs are: 1) the ThermWise Appliance Rebates Program; 2) the ThermWise Builder Rebates Program; 3) the ThermWise Business Rebates Program; 4) the ThermWise Weatherization Program; 5) the ThermWise Home Energy Audit Program; 6) the Low-Income Weatherization Assistance Program administered by the Utah Department of Community and Economic Development; 7) the ThermWise Multi-Family Rebates program; 8) the ThermWise Business Custom Rebates program. In addition to these programs, the Market Transformation campaign, designed to inform and educate customers about the importance of energy conservation, continues as part of the 2010 DSM Budget.

THERMWISE APPLIANCE REBATES PROGRAM

The ThermWise Appliance Rebates Program has the same major measures or choices to upgrade home appliances as those offered in 2009. In 2010, the program for gas storage water heaters has been enhanced. In the 2009 program, gas storage water heaters, with an energy factor (EF) of .62 qualified, for a \$50 rebate. In the 2010 program, gas storage water heaters with an EF of .62 to .66 (Tier 1) qualify for the \$50 rebate and a gas storage water heater with an EF of .67 or greater (Tier 2) qualifies for a \$100 rebate.

This program is administered by PECI and has a 2010 QGC proposed budget cost of \$5.229 million compared to a 2009 forecast of \$5.668 million. The 2010 proposed budget is a 7.7%

decrease from the 2009 projected costs. Again, as with the previous year's budgets, the actual customer rebates will vary depending on customer participation.

The table below summarizes the ThermWise Appliance Program by Customer Rebates and Program Costs with actual results through September 30, 2009, the 2009 Budget, the 2009 Projected Costs and the 2010 Budget. The table also shows benefit cost ratios that are all above 1.0.

ThermWise Appliance Program					
Thousands					
	2009 3Q Actual YTD	2009 Budget	2009 Projected Costs	2010 Budget	% 2010 Budget over (under) 2009 Budget
Customer Rebates	3,493.9	4,005.1	4,614.7	4,066.1	-11.9%
Program Costs	598.3	1,061.9	1,053.0	1,163.0	10.4%
Total Costs	\$ 4,092.2	\$ 5,067.0	\$ 5,667.7	\$ 5,229.1	-7.7%
Projected Dth Savings *	109.8	122.3	145.1	128.8	-11.2%
Participants	28.5	34.7	37.6	32.6	-13.1%
Total \$ / Dth Savings (\$0.00)	\$ 37.27	\$ 41.43	\$ 39.07	\$ 40.60	3.9%
California Test Results					
Total Resource Cost Test B/C	2.0	1.8	1.9	1.2	
Participants Test B/C	2.2	2.2	2.2	2.0	
Utility Cost Test B/C	3.2	2.8	3.1	1.9	
Rate Payer Impact Test B/C	2.0	1.9	2.0	1.1	

THERMWISE BUILDER REBATES PROGRAM

There are eight measures in this program, which range from the building of homes that meet the certification requirements for the Energy Star rating, to the installation of furnaces or water heaters that meet the Energy Star rating requirements. It also includes high-efficiency gas boilers and solar assisted water heating systems. The water heaters and furnace measures are the same as those offered in the ThermWise Appliance Rebates. This program is administered by PEI and has a 2010 budget of \$2.018 million. This is a 13% decrease from the 2009 projected costs.

The table below summarizes the ThermWise Builder Program by Customer Rebates and Program Costs with actual results through September 30, 2009, the 2009 Budget, the 2009

Projected Costs and the 2010 Budget. The table shows benefit cost ratios that are at or above 1.0.

ThermWise Builder Program					
Thousands					
	2009 3Q Actual YTD	2009 Budget	2009 Projected Costs	2010 Budget	% 2010 Budget over (under) 2009 Budget
Customer Rebates	1,125.4	1,241.0	1,504.0	1,046.3	-30.4%
Program Costs	589.3	1,019.9	816.5	972.1	19.0%
Total Costs	\$ 1,714.7	\$ 2,260.9	\$ 2,320.6	\$ 2,018.4	-13.0%
Projected Dth Savings *	37.6	41.7	50.5	34.6	-31.4%
Participants	2.7	3.2	3.6	2.6	-28.5%
Total \$ / Dth Savings (\$0.00)	\$ 45.59	\$ 54.16	\$ 45.94	\$ 58.26	26.8%
California Test Results					
Total Resource Cost Test B/C	1.9	1.7	1.9	1.1	
Participants Test B/C	2.4	2.3	2.4	2.0	
Utility Cost Test B/C	3.1	2.6	3.1	1.6	
Rate Payer Impact Test B/C	2.0	1.8	2.0	1.0	

THERMWISE BUSINESS REBATES PROGRAM

This program offers a variety of measures including several new refinements for structural improvements designed to leverage the marketing access and existing delivery channels of local businesses, wholesalers and retailers to provide cost-effective natural gas savings opportunities. The program is administered by Nexant. The 2010 budget is \$0.896 million. The amount requested in this year's budget represents an increase of 48.7% over the 2009 projected costs. The largest percentage of this increase is in the proposed customer rebates.

The table below summarizes the ThermWise Builder Program by Customer Rebates and Program Costs with actual results through September 30, 2009, the 2009 Budget, the 2009 Projected Costs and the 2010 Budget. The table shows benefit cost ratios that are all above 1.0.

ThermWise Business Program					
Thousands					
	2009 3Q	2009	2009	2010	% 2010 Budget
	Actual YTD	Budget	Projected	Budget	over (under)
			Costs		2009 Budget
Customer Rebates	253.7	393.9	313.1	531.6	69.8%
Program Costs	187.8	343.5	289.3	364.0	25.8%
Total Costs	\$ 441.5	\$ 737.4	\$ 602.5	\$ 895.6	48.7%
Projected Dth Savings *	18.8	39.5	23.8	40.3	69.2%
Participants	0.6	1.4	0.8	1.8	123.3%
Total \$ / Dth Savings (\$0.00)	\$ 23.54	\$ 18.68	\$ 25.30	\$ 22.22	-12.2%
California Test Results					
Total Resource Cost Test B/C	2.6	3.0	2.4	1.7	
Participants Test B/C	2.9	3.4	2.8	2.7	
Utility Cost Test B/C	4.6	5	4.1	2.9	
Rate Payer Impact Test B/C	3.0	3.2	2.8	1.4	

THERMWISE WEATHERIZATION REBATES PROGRAM

This program offers residential customer rebates for installing qualifying weatherization measures. The only change from the 2009 program is the addition of a Tier 2 level of attic insulation. The Tier 1 level of attic insulation, with a customer rebate of \$0.20 per sq. ft, requires adding insulation equal to an R19. If the Tier 1, R19 addition does not bring the customer to a minimum rating of R38, the Tier 2 level, at \$0.07 per sq. ft., is available to bring the customer up to the building code requirement of R38. An R 60 level is the maximum that can be added under the programs rebate incentives.

The weatherization measures are customer initiated and the program is administered by Nexant with rebates mailed back to the participants. The 2010 budget is \$21.831 million, of which \$18.764 million is based on participation levels. As previously mentioned, this program realized unanticipated participation in the attic insulation measure which led to changes in the rebate levels in March 2009. Despite the changes, this program has continued to see active participation during the summer months, however the latest forecast shows an actual decline of about 1,000 participants from the previous estimate provided to the Division, indicating a decrease in the pace of participation.

The table below summarizes the ThermWise Weatherization Program by Customer Rebates and Program Costs for actual results through September 30, 2009, the 2009 Budget, the 2009 Projected Costs and the 2010 Budget. The table does show benefit cost ratios that are all above 1.0.

ThermWise Weather Program					
Thousands					
	2009 3Q Actual YTD	2009 Budget	2009 Projected Costs	2010 Budget	% 2010 Budget over (under) 2009 Budget
Customer Rebates	26,383.8	4,266.2	28,531.6	18,764.3	-34.2%
Program Costs	2,005.6	656.7	2,390.5	3,067.0	28.3%
Total Costs	\$ 28,389.4	\$ 4,922.9	\$ 30,922.1	\$ 21,831.3	-29.4%
Projected Dth Savings *	481.9	80.2	553.5	512.4	-7.4%
Participants	75.9	15.7	86.7	91.6	5.6%
Total \$ / Dth Savings (\$0.00)	\$ 58.91	\$ 61.37	\$ 55.87	\$ 42.60	-23.7%
California Test Results					
Total Resource Cost Test B/C	2.3	2.5	2.4	1.7	
Participants Test B/C	2.5	2.8	2.5	2.3	
Utility Cost Test B/C	2.9	2.7	3.0	2.5	
Rate Payer Impact Test B/C	1.9	1.9	2.0	1.4	

THERMWISE HOME ENERGY AUDIT REBATES PROGRAM

The ThermWise Home Energy Audit is jointly administered by Nexant and Questar. There are no changes in the program's measures or processes. The home energy audits can either be an on-site audit conducted by QGC technicians or a mail in audit in which the participant answers questions and receives advice from QGC. A \$25 fee is charged for the on-site audits. This fee is fully refundable upon participation in any ThermWise energy-efficiency rebate program. In addition, the program will provide certain low-cost energy-efficiency measures at no charge (or with a rebate in the case of the programmable thermostat for customer installation at the customer's residence).

The 2010 budget is \$675,000 which is a 9.2% increase over the 2009 projected costs. The table below compares the 2010 Budget to the 2009 forecast for this program along with 3Q 2009 YTD actual results. The table shows that most of the benefit cost ratios are below 1.0. Even though some of the benefit cost ratios are below 1.0, this is an important program and should be retained

because many of the appliance upgrades and weatherization measures implemented by customers (for which incentives are received through other DSM programs) are taken as a result of their identification in home audits. This program has benefits beyond those seen in the data below as it introduces customers to the potential savings they may realize by implementing additional energy efficiency measures.

ThermWise Audit Program					
Thousands					
	2009 3Q Actual YTD	2009 Budget	2009 Projected Costs	2010 Budget	% 2010 Budget over (under) 2009 Budget
Customer Rebates	29.1	32.6	32.7	43.1	31.7%
Program Costs	491.3	615.2	625.2	675.4	8.0%
Total Costs	\$ 520.4	\$ 647.8	\$ 658.0	\$ 718.5	9.2%
Projected Dth Savings *	6.3	9.7	8.4	9.7	15.2%
Participants	2.2	3.6	2.9	3.8	30.8%
Total \$ / Dth Savings (\$0.00)	\$ 83.13	\$ 66.79	\$ 78.15	\$ 74.07	-5.2%
California Test Results					
Total Resource Cost Test B/C	0.9	1.0	0.9	0.7	
Participants Test B/C	21.0	24.5	21.3	18.2	
Utility Cost Test B/C	0.9	1.0	0.9	0.7	
Rate Payer Impact Test B/C	0.7	0.8	0.8	0.5	

LOW INCOME WEATHERIZATION ASSISTANCE PROGRAM

Part of the agreement reached in Docket 05-057-T01 contained the provision for QGC to increase the funding by \$250,000 for the state's Low Income Weatherization Program. In 2009, the budget funding of this program was increased by another \$250,000 for a total contribution of \$500,000 to the program's budget. The 2010 Budget contains the same level of funding as the 2009 Budget. This program should be viewed as part of the overall suite of DSM programs. This program does not drive the overall benefit cost ratio below the break-even point.

THERMWISE MULTI-FAMILY REBATES PROGRAM

The Thermwise Multi-Family rebates program was added as a new program in the 2008 budget. This program targets both new and existing multi-family projects. The Attic Insulation measure

was changed to add both Tier 1 and Tier 2 levels as well as Duct Sealing and Insulation measures, which is the same as the Weatherization Program. A Storage Water Heater Tier 2 measure was also added to make it essentially the same as the Appliance Program which is available to single family residences. PECCI continues to administer this program.

The 2010 Budget for this program is \$3.218 million, a 24% decrease from the 2009 projected costs. The costs per decatherm saved are much improved for the 2010 Budget when compared to the 2009 projected costs and the 2009 Budget. Because there are no equivalent programs offered by Rocky Mountain Power to this market segment, the program development and participation realized to date is encouraging.

The table below compares the 2010 Budget to the 2009 projected costs along with 3Q 2009 YTD actual results. This Program shows the Total Resource Cost Test and the Rate Payer Impact Test with benefit cost ratios below zero using the current lower prices reflected in the natural gas markets. As mentioned on page 4, the model used to calculate the benefit cost ratios has been updated to reflect current spot market conditions. The current base price at Opal for 2010 is an average of \$3.48/Dth. If this price were to increase to an average of \$4.72/Dth in 2010 then both the Total Resource Cost Test and Rate Payer Impact Test have benefit cost ratios above 1.0. On December 8th, the 2010 average for the NYMEX Henry Hub Futures was \$5.42/Dth.⁶ Since June 2009, the spread between Henry Hub prices and Opal has ranged between \$0.55/Dth to \$0.07/Dth thru November and for the first eight days of December, the average spread has been \$0.01/Dth.⁷ Although it is equally important to offer these multi-family residential customers the same opportunity to reduce their monthly usage of natural gas, given that the prices reflected in the new tests may represent lower than expected long-term prices, the Division recommends continuing the program at this time but will review it again in future filings.

⁶ Inside FERC'S Gas Market Report, December 11, 2009, page 5.

⁷ Based on information compiled by the Division from the Wall Street Journal for Henry Hub and the Natural Gas Intelligence Weekly (Inter Continental Exchange) for Opal.

ThermWise Multi-Family Program					
Thousands					
	2009 3Q Actual YTD	2009 Budget	2009 Projected Costs	2010 Budget	% 2010 Budget over (under) 2009 Budget
Customer Rebates	3,078.3	972.7	3,416.1	1,961.7	-42.6%
Program Costs	559.7	1,118.2	819.1	1,256.4	53.4%
Total Costs	\$ 3,638.0	\$ 2,090.9	\$ 4,235.3	\$ 3,218.1	-24.0%
Projected Dth Savings *	53.0	21.0	62.5	51.2	-18.0%
Participants	8.4	3.3	9.8	12.5	28.1%
Total \$ / Dth Savings (\$0.00)	\$ 68.67	\$ 99.33	\$ 67.79	\$ 62.84	-7.3%
California Test Results					
Total Resource Cost Test B/C	2.0	1.3	1.9	0.7	
Participants Test B/C	2.4	2.5	2.3	1.5	
Utility Cost Test B/C	2.4	1.5	2.4	1.2	
Rate Payer Impact Test B/C	1.7	1.2	1.7	0.8	

THERMWISE BUSINESS CUSTOM REBATES PROGRAM

This program is a customer initiated program and is administered by Nexant. The 2010 Budget has increased from the 2009 Projected Costs by over 300% due to expected increased participation, which, although not shown in the graph due to rounding, is expected to increase from 5 participants in 2009 to 15 in 2010.

The table below compares the 2010 budget to the 2009 projected costs. The table does show all but one of the benefit cost ratios above 1.0 for the 2010 plan year.

ThermWise Business Program					
Thousands					
	2009 3Q	2009	2009	2010	% 2010 Budget
	Actual YTD	Budget	Projected	Budget	over (under)
			Costs		2009 Budget
Customer Rebates	253.7	393.9	313.1	531.6	69.8%
Program Costs	187.8	343.5	289.3	364.0	25.8%
Total Costs	\$ 441.5	\$ 737.4	\$ 602.5	\$ 895.6	48.7%
Projected Dth Savings *	18.8	39.5	23.8	40.3	69.2%
Participants	0.6	1.4	0.8	1.8	123.3%
Total \$ / Dth Savings (\$0.00)	\$ 23.54	\$ 18.68	\$ 25.30	\$ 22.22	-12.2%
California Test Results					
Total Resource Cost Test B/C	2.6	3.0	2.4	1.7	
Participants Test B/C	2.9	3.4	2.8	2.7	
Utility Cost Test B/C	4.6	5	4.1	2.9	
Rate Payer Impact Test B/C	3.0	3.2	2.8	1.4	

In evaluating this program, it should be noted that project development times are much longer than the prescriptive incentive payments. This program requires pre-installation engineering studies, negotiated contracts, and implementation of the recommended energy saving measures before rebates are paid to the customers. Although the expected participants are few in the number, each project is expected to yield large decatherm savings. In terms of cost per Dth saved, this program, excluding Program Costs, has the best Customer Rebate Cost / Dth Savings at \$10.00/ Dth. This program is designed to be coordinated with RMP FinAnswer Program. Along these lines, QGC is moving to make engineering studies available at no-or-low-cost to customers, thus removing a perceived barrier to participation.

VARIABLE PARTICIPATION COSTS

These programs all have “variable” costs associated with them due to the level of customer participation, as witnessed in the unanticipated participation in the attic insulation measures of the Weatherization and Multi-Family Programs during 2009. Because of this unanticipated participation, the YTD October actual expenditures of the attic insulation measures exceeded their 2009 budgeted amount by \$23.9 million. The Division feels that these programs are important in raising the awareness of QGC’s GS customers to the importance of conserving

energy, not only because of their impact on their bills, but as measures that may dampen total demand. This dampening of demand decreases the need to purchase non-Company gas, thus reducing marginal prices for all customers.

PROGRAM ADMINISTRATIVE COST:

As shown in Table 2 above, the 2010 total program administrative costs are \$9.637 million, a \$1.838 million or 23.5% increase over the 2009 projected program costs. The increase in these program costs are due to increases in PECEI, Nexant and Richter⁷ program administrative costs resulting from increased participation and program development (\$1.393 million), completion of the Cadmus Group survey results (\$0.143 million) and increases in QGC administrative costs due to increased staff for program administrative and audit functions (\$0.230 million). These costs are 26.7 % of the total budget expenditures for 2010 but as a percentage of total costs, are lower than the 2009 budget which was at 38.0%. These costs are included as part of the overall program costs for the purpose of determining the net benefit cost ratios of these programs. The Division is cognizant of the fact that this is an area where close scrutiny of these expenditures as measured against the overall impact of these programs will be of great importance.

SUMMARY AND RECOMMENDATION

In September, 2009, the PSC issued an order⁸, based on the Division's recommendation, approving an increase in the DSM amortization rate to \$0.44996 / Dth for the GS rate class. This rate increase request from QGC was necessary to begin amortizing a July 2009 balance of \$42.9 million in Account 182.4 over the next twelve months. As of October, 2009, the amount in this account has grown to \$47.6 million. Although the overall benefit cost tests for these DSM expenditures are positive, these are dollars that the GS customer class pays for as part of their

⁸ PSC Order, Docket No. 09-057-14, September 30, 2009.

monthly gas bills whether or not these customers participate in any of the DSM programs. Currently, a typical GS customer⁹ is paying \$36.00 per year for the DSM programs.

This 2010 DSM Budget Application represents the first year beyond the original three year pilot program established in Docket No. 05-057-T01. The full effect of the three year pilot program will not be known until a summary evaluation report, prepared by the Cadmus Group, is completed and filed with the Division by June 2010. During the interim, the Division continues to audit and monitor these programs and as a result of the unanticipated participation in the attic insulation measures experienced in 2009, makes the following additional recommendation to the PSC.

- 1 In addition to the current requirement that the Company report to the Commission when any program reaches 90% of its budget, if any program reaches fifty percent (50%) of its' budgeted amount before June 2010 or eighty percent (80%) by August 2010, QGC must notify the Commission of the possibility of exceeding the allowed budget for that program if the present trend continues for the remainder of the year. At such a time, the Division may indicate a desire to receive monthly reports updating the status of those programs.

The Division supports the 2010 DSM budget with the above recommendation and recommends approval by the Commission. The Division commends QGC for their commitment to develop and promote strong DSM program with the intent to promote the energy saving measures to even broader base of GS customers.

Cc: Barrie Mckay, Questar Gas Company
 Dan Dent, Questar Gas Company
 Michele Beck, Office of Consumer Services
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⁹ 80 decatherms / year at \$0.44996/ Dth