

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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In the Matter of the Application for Tariff )  
Change for Third-year Budget for Demand ) DOCKET NO. 09-057-T04  
Side Management Programs and Market )  
Transformation Initiative ) REPORT AND ORDER  
)

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ISSUED: March 31, 2009

By The Commission:

BACKGROUND

This matter is before the Commission on Questar Gas Company's (Questar) Application for Tariff Change for Third-year Budget for Demand Side Management (DSM) Programs and Market Transformation Initiative. Questar seeks to make changes to its ThermWise Weatherization Rebates Program (Weatherization Program) and ThermWise Multifamily Rebates Program (Multifamily Program) (collectively Programs), specifically seeking to reduce rebate levels for insulation installation. It moved to make the reductions to the rebate levels and increases in evaluation and administration budgets effective April 1, 2009. It also sought increased funding for the administrative and evaluation expenses for the Programs, arguing that the increased number of rebate applications would increase administrative costs of processing the rebates and also increase costs to evaluate the work being done by contractors and property owners.

A duly-noticed hearing was conducted on March 26, 2009 before the Administrative Law Judge of the Commission. Jenniffer Nelson Bye, counsel, appeared for Questar. Dan Dent testified for Questar. Ms. Patricia Schmid, Assistant Attorney General,

appeared on behalf of the Division of Public Utilities (Division). Marlin Barrow testified on behalf of the Division. Mr. Paul Proctor, Assistant Attorney General, appeared on behalf of the Committee of Consumer Services (Committee). Michelle Beck testified for the Committee. Ms. Sarah Wright, of Utah Clean Energy also appeared and testified.

Originally, the first part of the hearing was set from 11:00 am to 1:00 pm, with a portion of that time reserved for public witness testimony. Because of the number of contractors that wished to testify, the Commission extended the public witness portion to about 3:00 pm. Subsequently, the Commission conducted a second portion of public witness testimony-taking from 4:30 pm to 5:30 pm at which additional members of the public and various insulation contractors testified.

The Commission approved Questar's proposed DSM programs and market transformation initiative in Docket No. 05-057-T01. The Commission later approved Questar's third-year budget on December 3, 2008, with effective date for that budget January 1, 2009. It is important to note that the Programs are part of a *pilot program* to encourage energy efficiency in the State. As with any pilot program, the Programs were implemented with the then-existing market data, e.g. costs to purchase and install insulation, demand and supply information, number of contractors in the market, etc. With that information, Questar proposed the Programs at their current rebate levels, concluding that the amounts would serve to incentivize customers and multifamily unit owners to make energy efficient upgrades and improvements, and to implement energy-efficient building techniques to reduce overall demand for natural gas. A key portion of these programs are the attic, wall, and floor insulation rebates, with the attic insulation

rebates comprising the largest portion of total rebates issued. Currently, Questar provides attic, wall, and floor insulation rebates at \$.35/ft<sup>2</sup>, \$.45/ft<sup>2</sup>, and \$.35/ft<sup>2</sup>, respectively. With these incentives, it was hoped that the cost-effectiveness of the Programs would serve to transform the attic insulation market to one aimed more at encouraging energy-efficiency.

Despite measures before the implementation of the Programs to estimate demand and levels of market transformation due to the implementation of these Programs, the market for insulation, mostly attic insulation, changed dramatically. In late 2008 and early 2009, the rapid increase in rebate requests substantially altered the dynamics and projected costs associated with the implementation of the Programs. In fact, the current demand for attic insulation alone has far out-paced what Questar and other interested parties originally envisioned when the plans and rebate levels were first set. As of the date of the filing of the Application, the Weatherization Program had already reached 98% of the 2009 annual budget in the first two months, with attic insulation rebates representing 92% of the total expenses for this period. Additionally, the Multifamily Program had reached 15% of the 2009 budget in only two months of the year, with attic insulation representing 77% of total expenses for that same period.

Questar stated that the dramatic rise in rebate applications was due, in part, to the rebates customers may also receive when qualifying for insulation rebates from Rocky Mountain Power. When combined, the Questar and Rocky Mountain Power rebates can provide sufficient funds to cover the entire cost of insulation installation, and in some cases, more than the entire cost. Questar, however, notes that the intent of the DSM programs and market transformation initiative was to provide incentives to customers to be more energy efficient by “paying for a

portion of the customer's costs, not the total costs." Therefore, the effect of the rebates has created a response beyond the original intent of the Programs' design. Questar has proposed the following changes to the Programs to preserve the intent of the DSM programs and market transformation initiative, and to increase cost-effectiveness:

1. Reduce the rebate levels for Attic Insulation from \$.35 to \$.20 per square foot for both Programs;
2. Reduce the rebate levels for Floor Insulation from \$.35 to \$.20 per square foot for both Programs;
3. Reduce the rebate levels for Wall Insulation from \$.45 to \$.30 per square foot for both Programs;
4. Increase the evaluation budget in the Weatherization Program to \$200,000 to increase on-site verification of contractor work; and
5. Increase the administration budget in the Weatherization Program to \$1,290,270 to allow for rebate processing, program management, and trade ally relationship management.

Questar proposes these changes become effective April 1, 2009.

The Division filed its recommendations with the Commission. The Division made recommendations as to Questar's application on March 18<sup>th</sup>, an amended recommendation on March 23<sup>rd</sup>, and a second amended recommendation on March 26<sup>th</sup> 2009.

The Division recommended approval of Questar's proposed changes to the insulation rebates. The Division agreed with Questar that the increase in rebate applications,

especially for attic insulation, is attributable to the market transformation in the attic insulation business where many contractors currently offer the insulation as a “no cost” opportunity for customers when combining Questar rebates with Rocky Mountain Power rebates. The Division also agreed that the original intent of the DSM and market transformation initiative programs was to provide incentives to customers to improve their energy efficiency by participating in offered DSM programs. The Division argued that because those programs no longer provided only incentives, but were instead used as “no cost” programs, then the Programs needed to be modified further. Further reduction in the rebate levels would make the Programs and overall DSM and market transformation initiative even more cost-effective than it is now.

After hearing concerns of the many contractors that testified and also testimony from the Committee, the Division determined an April 1, 2009 effective date would not provide enough notice to utility customers, contractors, and others affected by the rebate level changes. The Division recommended the Commission make the changes in insulation rebate level effective as of May 1, 2009, with customers being required to submit complete rebate applications on or before June 30, 2009. The Division felt it was reasonable to provide ratepayers, rebate applicants, contractors working on behalf of customers, *et al* time to complete jobs that were already bid on the basis of existing rebate levels. Also, the Division noted that customers doing their own insulation installation should have reasonable notice of the change so as to complete any planned work.

The Division did not recommend the approval at this time, of the budget increases in the administration and evaluation costs. While the Division did not doubt that the costs for

administration and evaluation due to the high number of rebate applications would increase, the Division felt increases to budgets were premature at this time. The Division requested additional time to investigate the process and estimated costs before the Commission finally approves budget increases for administration and evaluation.

The Committee generally agreed that the rebate levels needed to be decreased in order to meet the intent of the DSM program and market transformation initiative. However, the Committee did raise a concern that focusing solely on the cost-effectiveness of the program, while either ignoring or down-playing other important factors, might have led to these circumstances and might lead to less effective evaluation and implementation of the Programs' effectiveness in the future. The Committee suggested that in the future, all parties involved should balance cost-effectiveness with other important factors as the DSM programs and market transformation initiatives continue or are amended.

The Committee also opposed Questar's proposed effective date. It argued that the rebate reduction would have a significant impact on ratepayers, rebate applicants, contractors, etc. Implementing such reductions, with virtually no notice, would cause a burden to several consumers who had made plans to improve energy efficiency based on current rebate levels. Questar did note that several contractors and other parties had provided notice of a possible reduction in rebate levels to some of the public. The Committee, however pointed out that there was no notice of the proposed changes on Questar's website or on the ThermWise website. The Committee suggested a minimum of 30 days after issuance of the order in which to allow

ratepayers, rebate applicants, and contractors working for them to receive notice of the change and make necessary adjustments or complete the work.

The Committee also argued that the timing of the rebate reduction should be coordinated with any proposed rebate reduction filed by Rocky Mountain Power. If those two were reduced simultaneously, then notice should be adjusted accordingly.

Ms. Sarah Wright, of Utah Clean Energy also commented on the cost-effectiveness of the current rebate incentives. She pointed to Questar's own pre-filed exhibits and Hearing exhibits to show that the Programs were currently very cost-effective. The cost-effectiveness of the Programs argued for little or no change in the current rebate structure. She additionally questioned any change in floor and wall rebate incentives, as those incentives comprised only a small portion of the total Programs' costs. She argued that the rebate levels for floor and wall rebates should not be changed.

The Commission received public comments in this docket. Written comments were submitted prior to and after the hearing. Several public witnesses also testified before the Commission at the hearing. All of the witnesses testified under oath. All the public witnesses represented larger or small contractors and most of the testimony was directed to the impacts any change in the rebate incentives would have on their businesses. Many witnesses provided valuable insights into the effects the Programs have had in transforming the attic insulation market. Many contractors stated that they did not wish for the rebate reduction, but that if it was to happen, the Commission should allow more time to complete currently bid insulation installation contracts. A few of the contractors did testify that they had spoken with Questar

staff about future changes in rebate incentives. Of those that did have contact with Questar staff about possible reductions in rebate levels, several testified that Questar told them that any changes would not occur until late 2009 or even 2010, but certainly not as soon as April 1, 2009. Based on the representations of Questar staff, several made investments in materials, labor, etc. to meet the increase in market demand. Most of the contractors that did give testimony about their obligations to meet current bids, stated that they needed about a month to complete currently bid jobs. Many stated that they had stopped issuing new bids pending the outcome of this matter.

Several public witnesses also gave valuable testimony about possible changes in the Programs and how rebates are structured. Although more appropriately dealt with completely in another docket, they are nonetheless worthy of mention. Some contractors proposed more coordination in Questar and Rocky Mountain Power rebates, with some even suggesting that customers be allowed to qualify for only one rebate if the rebate levels were not reduced. Others suggested that the rebates be tied to particular climate regions of the State, where some customers would receive higher rebate incentives according to the particular climate of a geographic region. Those that made these suggestions stated that it would help the rebates be more effective in increasing energy efficiency, and reduce misuse of rebates in areas where certain energy efficiency measures would have little or no effect.

#### ANALYSIS

Questar's Exhibit 1 to the Application, and updated Exhibit 1 submitted at the Hearing, show that initially, from May 2007 through February 2008, the amount of ThermWise



Attic, Floor, and Wall Insulation grew at a steady pace, going from \$31,844 in May 2007 to \$105,617 in February 2008. In February 2008, however, insulation rebates increased markedly. From February to March 2008, the rebate amounts almost tripled (\$105,617 to \$326,982). Continuing that dramatic trend, that amount had more than doubled by August 2008 (\$326,982 to \$683,097), and by December 2008, the amount had more than doubled again (\$683,097 to \$1,413,319). The February 2009 amount was almost double the total December 2008 rebates, and the rebate amounts continue to increase.

No party disputes that the measures have been cost-effective and, in fact, Questar's Hearing Exhibit 1 shows the measures are cost-effective. However, the cost-effectiveness of those measures, has transformed the insulation market in a way that no party perhaps envisioned. That in turn requires the parties and the Commission to reevaluate how the DSM programs and market transformation initiatives are implemented, specifically, how insulation rebates are used to encourage further market transformation. Ultimately, as pointed out by Questar, the Division, and the Committee, DSM programs— such as insulation rebates, should benefit all customers and ratepayers to the greatest extent possible, and not just benefit a small percentage of ratepayers or certain segments of the insulation market. Additionally, such programs should still allow customers to understand the true costs of energy efficiency and encourage customers to take energy-efficient measures appropriate to their particular climate region. Given the evidence presented by Questar, the cost-effectiveness of such measures should actually increase if the rebates only cover a portion of the cost of insulation.

With the evidence presented by all parties, and the testimony presented at the Hearing, the Commission finds that adjustments to bring the rebate programs more in line with the original intent of the program, requires the reduction in rebate levels. Although the Programs' insulation rebates are currently cost-effective, their reduction will make them, overall, even more cost-effective. *See Questar Hearing Exhibit 1.* The rebate levels should be reduced as requested by Questar and as recommended by the Division.

The Commission declines to approve the administration and evaluation budget increase at this time. The Commission finds it is premature to determine the appropriate level by which the budgets for administration and evaluation should be increased. With the reduction in rebate levels and adjustments for regional climate differences, the estimated and actual costs of administration and evaluation will likely change. Therefore, the Commission finds it would be more appropriate for Questar to apply for increases in those budgets once the effects of this Report and Order can be more clearly understood.

The Commission does find that the rebate levels and rebate eligibility should correspond to the particular climates of various regions of the State. For example, insulation installation in St. George might be less cost-effective than in Logan. Questar, should analyze possible changes to the rebate levels and rebate eligibility as related to regionality and report back to the Commission within 150 days after entry of this Order.

As to the timing, the Commission finds that implementing such changes by April 1, 2009, would impose an undue burden on ratepayers and customers that have contracted for work or received bids to upgrade their residences or units based on current rebate levels and

Program requirements. The Commission finds that an effective date for rebate reduction of May 1, 2009 is more reasonable. The deadline for submission of completed rebate applications should be June 30, 2009. To summarize, a person wishing to qualify for current rebate levels must have all insulation work completed on or before May 1, 2009. That person must then submit a complete rebate application for that work on or before June 30, 2009.

ORDER

Therefore, based on the Application submitted by Questar, the Division's recommendations, and testimony of the Committee, Utah Clean Energy and various public witnesses' testimony, the Commission orders as follows:

1. The following reduction in rebate levels are approved:
  - a. The rebate levels for Attic Insulation from \$.35 to \$.20 per square foot for both Programs;
  - b. The rebate levels for Floor Insulation from \$.35 to \$.20 per square foot for both Programs;
  - c. The rebate levels for Wall Insulation from \$.45 to \$.30 per square foot for both Programs;
2. The effective date for such reduction is May 2, 2009.
3. Persons wishing to qualify for current rebate levels must have all insulation work completed on or before May 1, 2009. A complete rebate application for that work must be submitted to Questar on or before June 30, 2009.

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4. Questar shall analyze if and how rebate levels and rebate eligibility should be adjusted for regionality, and report back to the Commission within 150 days after entry of this Order;
5. The Commission does not rule on the increase in administration and evaluation costs at this time. However, Questar may apply for such costs once the effects of this Report and Order are known and once it completes its investigation and analysis of regional differences and effects of reduced rebate levels;
6. In order to provide more complete notice to customers, ratepayers, rebate applicants, and the general public, Questar shall publish notice of the upcoming changes to the rebate levels on its Company website and the ThermWise website.
7. Pursuant to Utah Code § 63G-4-301 and 54-7-15, an aggrieved party may request agency review or rehearing of this Order by filing a written request for review or rehearing with the Commission within 30 days after the issuance of the Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission does not grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of Utah Code §§ 63G-4-401, 63G-4-403, and the Utah Rules of Appellate Procedure.

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DATED at Salt Lake City, Utah, this 31<sup>st</sup> day of March, 2009.

/s/ Ruben H. Arredondo  
Administrative Law Judge

Approved and confirmed this 31<sup>st</sup> day of March, 2009, as the Report and Order of  
the Public Service Commission of Utah.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard  
Commission Secretary  
G#61412