



GARY R. HERBERT  
*Governor*

GREG BELL  
*Lieutenant Governor*

State of Utah  
DEPARTMENT OF COMMERCE  
Office of Consumer Services

MICHELE BECK  
*Director*

To: Public Service Commission  
From: The Office of Consumer Services  
Michele Beck  
Dan Martinez  
Eric Orton

Date: December 20, 2010

Subject: Docket 10-057-15

Application for Approval of the 2011 Year Budget for Energy Efficiency Programs and Market Transformation Initiative

### Background

On December 6, 2010 the Office of Consumer Services (Office) filed a memo with the Public Service Commission (Commission) outlining certain areas of concern in this docket and requested the Commission postpone making any decisions until December 20, 2010 so that the Office could provide a complete analysis of the issues it has identified. The Division of Public Utilities (Division) filed its memo recommending approval of the application with the exception of the proposed Direct-Vent Fireplace measures. Questar subsequently filed a memo agreeing to withdraw the fireplace measure from its DSM program.

Questar Gas (the Company) collects about \$36.00 per year from its nearly 900,000 GS customers to fund this DSM program. These customers do not have an 'opt out' provision. They must pay for the program. Therefore, it is imperative that the costs are controlled and that the program is managed in a way that it is efficient and utilizes this money in the most beneficial way possible. This will require careful management from both the Company and regulators.

### Discussion

The December 6<sup>th</sup> memo from the Office stated that it is concerned about certain parts of the application including but not limited to:

- the language of the proposed Contractor contract,
- increases to QGC Management and Administrative costs,
- the 120% increase in Contractor Ongoing Marketing within the Market Transformation Program, and
- Cost/Benefit Tests sensitivity.

These concerns break down into basically two areas: 1) Contractor Contract, and 2) DSM Budget concerns. We will address our conclusions and recommendations below.

#### 1) Contractor Contract

##### The Language of the Contractor Contract.

The Company proposes to implement an Approved Contractor list within the ThermWise Insulation Rebates program. The proposed contract is between those who want to be an “approved Questar DSM Insulation Contractor” and Questar Gas. If insulation work is not done by these approved contractors then Questar would deny paying the DSM rebate.

The current language and requirements in the contract may discourage competent, licensed, experienced contractors from becoming an approved contractor. For example, the requirement for a minimum \$2 million general liability insurance may prohibit smaller, qualified contractors to participate in the program. If this barrier to entry is too high then the field of eligible professionals may narrow too much, thus decreasing healthy competition among the contractors resulting in increasing costs to DSM participants. With the current decreasing participation levels in the weatherization program, increasing costs to participants, by limiting available contractors, would cause further decreased participation. Also, the contract is missing a due process/appeals procedure for contractors removed from the authorized list. The Office discussed its concerns with the Company and received its assurance that their objective is to keep the approved pool as large as possible.

While the Office supports the concept of an Authorized List of Contractors to ensure quality for customers, approval of the proposed contract and implementation should be postponed until a Technical Conference can convene to clear up contract and program issues. The rebate programs can continue without an “Approved List.” As such, there is sufficient time to review the program and resolve issues without interruption to the program.

The Office proposes that the Commission require close monitoring of the implementation of this new contract, including reporting requirements for the Company. Specifically, the Office recommends that prior to the date that the contract is mandated, the Company should be required to provide the Commission and interested parties with a report that includes the following:

- The Approved Contractor list,
- A comparison of the number of previous contractors to the number of contractors that were approved for the list,
- Feedback from contractors and participants regarding the new contract.

This kind of oversight would ensure that having an approved contractor list was not so restrictive as to unnecessarily raise costs to customers participating in the DSM programs.

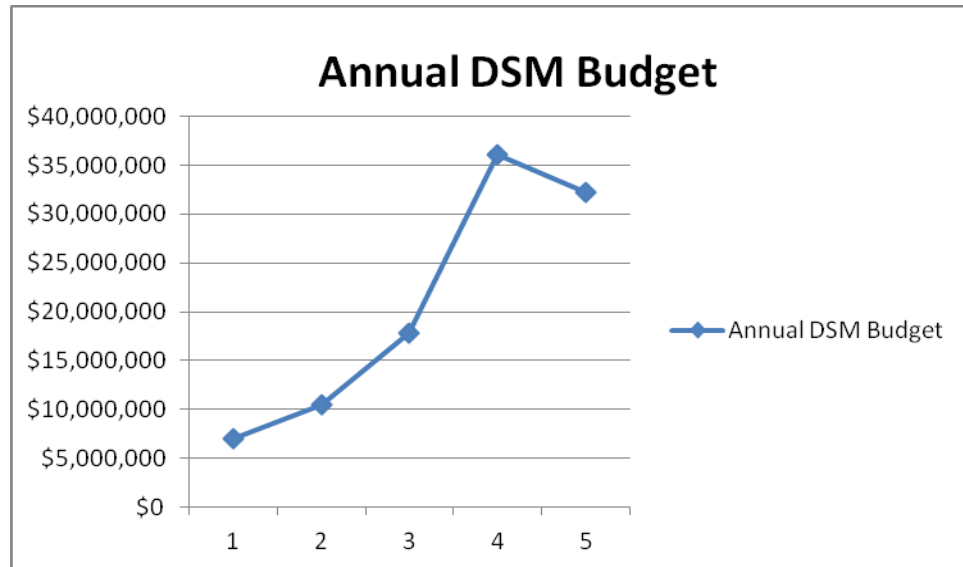
Finally, the Office notes that Questar has requested that the requirement for using a provider from the Approved Contractor list be implemented January 1, 2011. However, Questar has not yet notified customers that this change will be required for participation in the DSM programs. The Company's filing did not address this issue and, when asked, a Company representative told the Office that the Company would likely put the change on its website and possibly in the January bill insert but would essentially rely upon the contractors to get the word out to customers about the change. This is not a sufficient communications plan and by itself renders this change contrary to the public interest. Customers must receive adequate notice of all changes to the DSM programs. As we recommended and the Commission ordered in Docket 09-057-T04, customers should have at least 30 day notification of changes to any DSM program. This allows customers to make appropriate plans in terms of who they hire and helps to minimize incidences of customers forfeiting rebates because of confusion during periods of transitioning requirements.

## 2) DSM Budget Concerns

DSM programs are funded by GS customers and should be designed to maximize benefits to these customers. The increasing costs and decreasing savings outlined below demonstrate that the DSM program efficiency is reduced and thus the correlating benefit to customers is reduced as well. The Office is concerned that many of the changes driving the lower benefit have not been explained well enough by the Company.

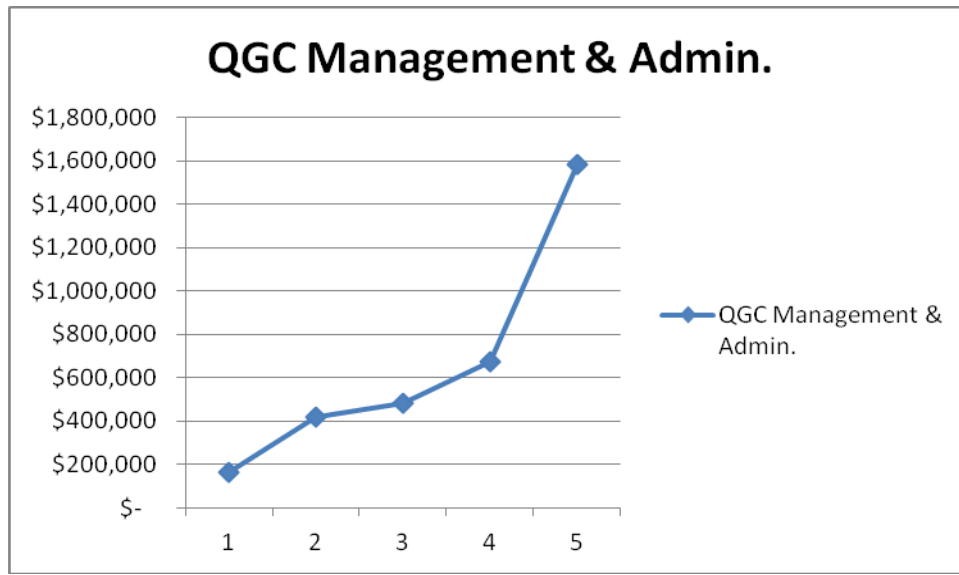
### Annual DSM Budget

The budget has increased significantly since the three year pilot program. The proposed budget for 2011 is a slight decrease from \$36 million last year to about \$32 million. This is still just under double the budget from the last year of the pilot program (2009), which was the year in which the anomaly of the insulation program was thought to have skewed actual budget results.

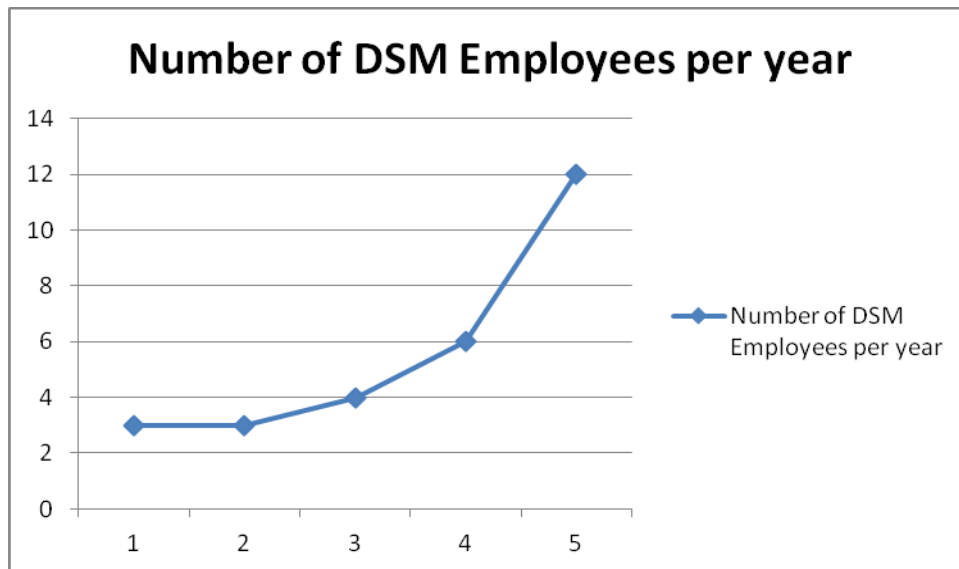


Increases to QGC Management and Administrative Costs

In the initial year (2007) of the DSM pilot program the Management and Administrative Budget was approximately \$166,000. The proposed Management and Administrative Budget for 2011 is \$1.582 million. This is nearly a tenfold increase in just five years.



This increase in management and admin costs correlates with the increase in QGC DSM staff from 3 in 2007 (year 1) to 12 in 2011 (year 5).



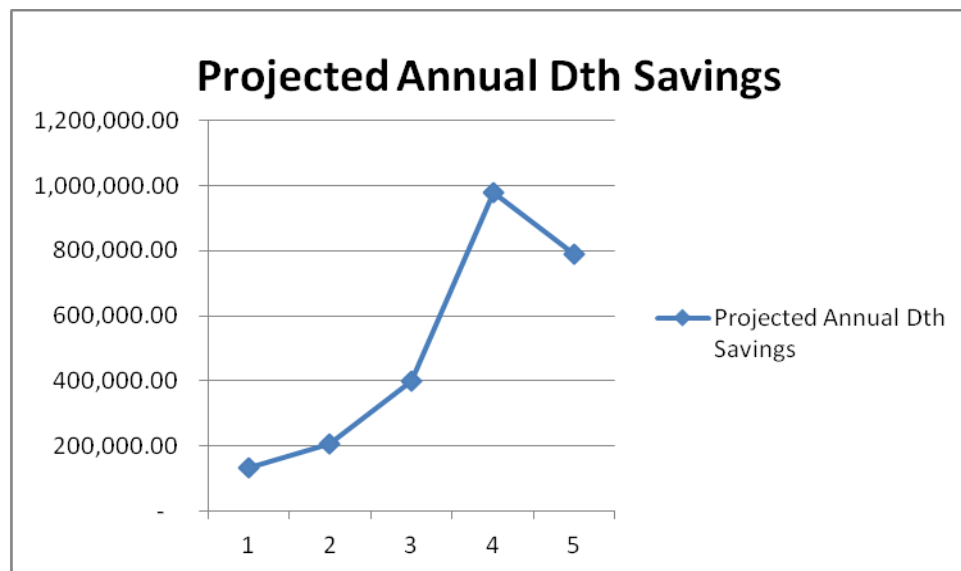
The Company seeks to increase its DSM Management & Administration line item by 135.7% in 2011. This change reflects an increase in Company DSM management from 6 FTE's to 12 FTE's. Eighty percent of this increase was financed during 2010 by reducing Contract Administration and Contractor Ongoing Marketing by \$274,743 and \$302,939 respectively and transferring that amount to the Management and Administrative line item. While the Office does

not necessarily oppose reallocation of line items, such moves should be transparent and highlighted in future filings. This increase comes in the context of Dth savings decreasing by 19.3% and participation decreasing by 18.1%. The Company has not shown justification for either the FTE increase or the proposed 26.7% increase above the 2010 budget. Are these funds for further staff increases in 2011 or attributed to the staff increases made in 2010? These increases need more scrutiny and the budget needs to be more transparent.

The Office recommends that this level of administrative cost needs additional justification prior to receiving approval for the 2011 budget. The Office also proposes that the Company provide parties a quarterly report showing budget to actual expenditures within the DSM program portfolio. Further, the Commission should require any line item reallocation to be documented and included within this report to ensure budgetary integrity and cost containment.

Practical Benefit of the DSM Program

The practical effects of the DSM program is the Dth savings. This graph shows that in 2011 (year 5) the decatherms saved is projected to reduce from about 980,000 to 790,000 or about 20%.



This graph shows that the Dth saved decrease (20%) is twice the decrease DSM budget (10%.) The Company has not provided adequate explanation for this phenomenon, which could be due to achieving saturation in the programs (not likely after less than five

years), unjustified increases to the administration and management of these programs, or other factors which have not been explained.

### ThermWise Market Transformation Program

The proposed 2011 budget for the market transformation program alone is 29.2% higher than 2010 increasing from \$1.35 million to \$1.75 million. The Office supports training and code enforcement, however a \$150,000 increase above the current line item has not been adequately justified. Such increases must be scrutinized to ensure no over-funding occurs. The Office proposes an itemized budget of the Market Transformation Program outlining the purpose of each expenditure with quantitative and/or qualitative outcome measures to determine program effectiveness. We believe that this is another topic that needs discussion prior to Commission approval.

### Strategic Plan for Managing the DSM Budget

On December 12, 2010, Commission staff sent an email to certain representatives of Questar, the Division and the Office regarding the December 16, 2010 hearing in Docket No. 10-057-18. This email made the following request:

During the December 16, 2010, hearing in this case the Commission would like discussion on the following:

- 1) What is Questar Gas Company's long-term plan to manage the balance in the DSM Account?
- 2) What are other parties' views on the long-term plan?

At the hearing, the Office expressed the following concerns about the Commission request:

- The request was only sent to Questar, the Division, and the Office. While it is true that these are the only parties that would reasonably be expected to participate in the 10-057-18 docket, the question asked by the Commission is larger than that docket. The Questar DSM Advisory Group includes a number of other regular participants, including other state agencies and energy efficiency advocates. These interested parties must be given equal opportunity to comment on the issues of interest to the Commission.

- The timing of the request did not allow for the Company to distribute its plan in advance so that the Office and other parties could provide meaningful comment.
- The question asked by the Commission is larger than the topic addressed in Docket 10-057-18. In order to consider a long-term plan to manage the balance, the drivers behind the DSM budget must also be considered.

Thus, the Office recommends that longer term questions about the size and management of the DSM balance be addressed as part of the additional review of the proposed 2011 budget and plan.

### Recommendation

The Office recommends the Commission engage in additional analysis prior to making any decision on the 2011 DSM Budget. Specifically, the Office recommends the following actions:

1. The Commission schedule a Technical Conference in conjunction with Docket 10-057-18 to provide input for standards of scrutiny and oversight for the DSM programs. The technical conference should be noticed widely, including all Questar DSM Advisory Group participants, to ensure that all interested parties are given the opportunity to participate. Agenda items for this conference would include:
  - a. Oversight reporting requirements for all DSM programs
  - b. The Authorized Contractor Program and Contract
  - c. Justification for increasing DSM Management & Administration by 135.7%
  - d. Qualitative measures for the Market Transformation Program
  - e. The strategic plan for DSM programs
2. The Office recommends the DSM Approved Contractor list not be implemented until after program and contract issues are resolved. The Office also recommends that the requirement to use providers from the Approved Contractor list not go into effect until after customers have received a 30-day notice of the change.
3. The Office requests Questar file the following reports with interested Parties:
  - a. A quarterly budget to actual variance report by budget line item with explanations for the reason the variance occurred for all DSM Programs.
  - b. An itemized report of expenditures for the Market Transformation Program outlining the purpose of each



expenditure with quantitative and/or qualitative outcome measures to determine program effectiveness.