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Lieutenant Governor

State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: Public Service Commission

From: Office of Consumer Services
Michele Beck, Director
Gavin Mangelson, Utility Analyst

Copies To: Questar Gas Company
Barrie McKay, Vice President, Regulatory Affairs
Michael Orton, Director, Demand-Side Management
Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Section Manager

Date: November 27, 2013

Subject: **Comments** Docket 13-057-14

In the Matter of: the Application of Questar Gas Company for Approval of the 2014 Year Budget for Energy Efficiency Programs and Market Transformation Initiative

Background

On October 16, 2013 Questar Gas Company (Company) filed with the Public Service Commission (Commission) an application with supporting exhibits for the 2014 budget of the Demand Side Management (DSM) programs. The Commission subsequently posted a Notice of Filing and Comment Period. The DSM programs commenced as a three year pilot with the Commission Order in Docket 05-057-T01 on October 5, 2006; DSM programs have been approved annually since the pilot period ended. The 2014 DSM initiative consists of measures designed to reduce natural gas consumption; these measures are grouped into eight separate programs. The supporting exhibits consist of explanations of each program, spreadsheets showing the proposed budget compared to the approved budget from the previous year, spreadsheets demonstrating the four industry established cost tests for each measure and program, and the tariff with proposed changes supporting the DSM application.

<u>Discussion</u>

The Office of Consumer Services (Office) has reviewed the Company's Application and Exhibits and has conducted an analysis of the proposed budgets. The Office has also met with representatives from the Company to clarify some of the Offices' questions. These Comments will address both comprehensive issues that the Office has identified and issues pertaining to specific programs.

Budget Exhibit

Exhibit J of the Company's application is the proposed budget presented in spreadsheet form. This spreadsheet declares the proposed DSM total budget and is broken down into individual program budgets. Also show cased is the approved budget for 2013; this exhibit demonstrates a comparison of the previous budget to the proposed budget showing changes from last year to this year. However, this exhibit shows only the 2013 budget as it was originally approved. On September 20, 2013 the Commission approved an amended budget; increasing the 2013 DSM budget to $31 million dollars. This increase was based on a projection that the Weatherization program would need an amended budget of $16.4 million in order to continue funding rebates to the end of the year. The purpose in conducting budget comparisons is to identify trends. The Office asserts that a more comprehensive budget comparison should be presented as part of each year's budget application. Although the previous approved budget is a useful comparison, it should not be the only comparison. When creating a new budget, budget analysts will look to the previous years' actual expenditures plus end of year forecast. In estimating the new budget an analyst will use the current years' actual expenditures and estimate any foreseeable changes in order to create the next years' budget. In future filings, the Office would like the Company to continue submitting the new budget with comparisons to the current years' original budget, but also include any amendments to the current year budget, and a comparison of the new budget with the current years' forecasted totals.

In Figure 1 below, the Office compares four columns: 2013 originally approved budget, 2013 amended budget, 2013 actual expenditures through 3rd quarter plus remaining year forecast, and the budget request for 2014.

Program	2013 Budget	Revised 2013	2013 Forecast	2014 Budget
Appliance	$5,363,360	$5,363,360	$5,362,000	$5,887,450
Builder	$2,753,002	$2,753,002	$2,920,000	$2,774,950
Business	$1,595,770	$1,595,770	$1,595,000	$1,985,759
Home Energy Plan	$852,927	$852,927	$852,000	$794,270
Weatherization	$8,192,062	$16,400,000	$14,828,000	$12,686,485
Low-Income	$1,218,599	$1,218,599	$1,218,000	$877,486
Business Custom	$823,602	$823,602	$823,000	$760,150
Market Transformation	$1,991,813	$1,991,813	$1,991,000	$1,653,000
TOTAL	$22,791,135	$30,999,073	$29,589,000	$27,419,551

When viewed in this context, the 2014 budget is more clearly an extension of the current operations of the DSM programs, rather than simply 20% over the originally approved budget for 2013. The Office asserts that such a comparison facilitates a more robust analysis and requests such data be provided in future filings.

Tariff/Exhibit Inconsistencies

The Company's filing consists of an application which describes the programs and proposed changes to the programs; this application is accompanied by exhibits that describe each program. Furthermore, the Company submits the tariff with any proposed changes. This means that there are some redundancies in the descriptions and explanations of these programs. Such redundancies can and have resulted in some inconsistencies. For example, regarding the Low Income Assistance Program the application and tariff cite the Department of Workforce Services (DWS) as the agency receiving and allocating the funds; however the exhibit cites both DWS and the Department of Community and Culture. Also, the exhibit for the Home Energy Plan states that the $25 home inspection fee will be waived for lower income seniors that have been "targeted" for the program; however, the tariff states only that the fee will be waived for lower-income senior citizens. The Office recognizes that the Company has provided the exhibits in an attempt to plainly explain the programs. However these extra exhibits result in program descriptions in three different places. The Office strongly recommends that the Company discontinue the use of the program exhibits[1] as they contain inconsistencies and may lead to confusion among stakeholders and customers. In the future, the application should include descriptions of changes to the programs and the general overview of the program. The tariffs should include all details regarding the participation in and operation of the programs.

Market Transformation Initiative

The Office notes that the Company included an expanded description of the expenditures within the Market Transformation program exhibit. The Office supports retaining this expanded section in future filings, preferably as a separate attachment rather than within a program exhibit section. The program exhibits for the other programs create confusion and contain inconsistencies with the tariff language. The program exhibit for the Market Transformation contains important information essential for the stakeholders and Commission to properly evaluate the Company's program.

The Office has raised concerns about the Market Transformation spending in the past and continues to assert that a careful ongoing review of these expenditures is necessary. The Office notes, however, that while we remain concerned about the increased budget attributed to Market Transformation, the actual spending levels have not reflected those budget increases (see Table 1, page 2 of the Exhibit 1.8.) The Office is again concerned about the level of proposed budget, especially in comparison to recent actuals. The Office notes that the Commission requires much more stringent reporting from Rocky Mountain Power on similar expenditures through its communication plan. The Office recommends that the Commission order the Company to work more closely with the DSM Advisory Group regarding the details of the expenditures within the Market Transformation budget, including specific costs and associated benefits. The Office will continue to monitor this issue.

Appliance Program

As part of the appliance program for 2014 the Company will offer rebates for furnaces with Annual Fuel Utilization Efficiencies (AFUE) of 92, 95 and 98 percent. The Company has provided market research that demonstrates the sustained demand for 80% efficient furnaces as 90% efficient furnaces are not yet mandatory for this market.

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[1] The one exception to this recommendation relates to the Market Transformation Initiative, as

The Office agrees that the market research indicates that 92% efficient furnace rebates should be continued into 2014. The Office recognizes that furnace rebates make up 77% of the rebate budget for the Appliance Program and that furnaces represent the greatest opportunity for dekatherm (Dth) savings in this program.

Builder Program

The Builder Program allows builders to receive a rebate for installed approved energy efficient products and appliances. Currently the program sends builders a check equivalent to the eligible rebates.

The Company is now proposing a new procedure by allowing builders to declare the approved products that they plan to install; the total rebate will be calculated and the amount will be applied as a credit to the fee the builder must pay to the Company for installation of the gas service line. A rebate check will only be sent if the rebate is larger than the service line fee, in which case the difference will be sent to the builder. This method of issuing a credit may help to eliminate barriers to the program by providing a more simplified rebate process and encouraging the installation of the approved products. Cost savings may also be realized for the rebates that circumvent the third party rebate processors. However, the Office also notes that under this new method the 182.4 DSM Deferred Account will incur the cost of the rebate long before the installation of the appliance; this means that the Account will also accrue the carrying charge for the rebate before the products are installed and generating Dth savings.

The Company filed a tariff that anticipates this future change to the Builder Rebates program. However, the Company's tariff cannot be found to be in the public interest or approved in its current form. The third paragraph under "Program Description" within section 2.11 of the proposed tariff starts as follows:

> Upon Builder rebate credit process implementation, Builders may elect to receive either a rebate check or a rebate credit for installing furnaces or storage water heaters which meet the minimum efficiency

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described further in the next section.

> qualifications listed in the Builder Rebates Table. A rebate credit will be applied against the Company-assessed meter charge and service line contributions. In the case where the rebate credit exceeds the meter and service line contribution charges, a rebate check will be issued to the Builder for the overage. Credits will be calculated using the established furnace and/or storage water heater rebate amounts listed in the Builder Rebates Table. A rebate check will be the only option for all other measures (non-furnace and storage water heaters) listed in the Builder Rebates Table.

This language appears to describe an actual credit process available to builders. However, the paragraph in the proposed tariff goes on to say:

> The Company is currently developing internal processes to launch the builder credit option and expects that, with this Commission's approval, the process will be implemented sometime in 2014. The option of a credit will become available to Builders at that time.

This additional language is problematic on several levels. First, it is simply improper language to be included in a tariff. A tariff should not reference "this Commission's approval," such references are appropriate for the application itself. Second, a tariff must include a description of all associated processes, not a mere reference to the fact that the Company is in the process of developing internal processes. Finally, a tariff must reference terms and service currently available to customers, not a potential program that might be offered (if approved) at some unspecified time in the future under terms that may or may not be as currently described.

The Office had some concerns about the design of the credit option to builders as proposed by the Company and met with the Company to discuss our concerns and gain a better understanding. The Office's concerns included what specific process would be followed, in what order various steps are taken relative to when the credit is provided and what verification processes would be implemented to ensure that the appliances earning the rebates were in fact installed. In response to the Office's follow up data request, the Company indicated the following steps related to the credit option:

1. Builder contacts the Company either by phone or the Service Line Request website listed in answer “b/c.”
2. Builder provides new construction details to calculate meter and service line charges. (e.g. setback footage, natural gas appliance types)
a. Builders would be able to reduce meter and service line charges by committing to install qualifying furnaces and/or storage water heaters. Builders would be able to select qualifying furnace and storage water heater model numbers (available on the Service-Line Request website) from a Company maintained list of rebate eligible equipment. Rebate credits would be calculated using the established furnace and/or storage water heater rebate amounts.
3. Based on tariff, builder remits payment to Company for meter and service line charges prior to installation.
4. Company installs service line and sets meter.
5. Installation of rebate credit qualifying equipment would be verified by the Company when gas service is initiated.

The Office asserts that these details, as well as the remedy that would be implemented if the Company’s verification finds that the qualifying equipment was not installed, needs to be clearly outlined in the tariff. If the Company desires approval from the Commission for this program in the current docket, then the Company should have provided such information in its program application. The Company could now provide the information as a supplement to this filing, so long as the Commission allowed for a comment period. Absent such supplemental information, the Commission should require that the Company make a separate filing for approval of the new credit aspect of the builder rebates program. Either way, the Commission should require that the Builder Rebates tariff (2.11) be modified as follows:

- Remove paragraph three from the “Program Description” section.
- Remove the reference to “credited” in paragraph four of the “Program Description” section.

Whether the new credit option is approved later within this proceeding or in a subsequent proceeding, the tariff should not be amended to reflect that option until it is fully operational and available to customers.

Business Program

The Business Rebates Program offers a pre-rinse spray valve that was previously called a low flow pre-rinse spray valve. The Company has been working on efforts to overcome what they believe is a perception that the low-flow valves do not work well. As part of this effort the Company has solicited participants to accept the spray valve for a trial period; after the trial period the participant can purchase the new valve or opt to return to their older valve. The Company shared this effort with the DSM Advisory Group at which point the group also suggested changing the name of the valve. The term low flow is often associated with other low flow devices that are perceived to have inferior performance. The Company is now calling the valves High Efficiency Pre-Rinse Spray Valves. The Office agrees that there are Dth savings to be gained from these efficient spray valves, and that the trial program and name change will help overcome the previous barriers to adoption by business customers.

Low Income Assistance Program

The Company has proposed changing the name of the Low Income Weatherization Program to The Low Income Assistance Program; the motivation for this change is that the program supports both low income weatherization as well as appliances for low income residents. However, this name is now similar to other initiatives that are designed to aid low income residents in paying their gas bills. Since this program is a DSM program and not a bill assistance program, the Office recommends that the Commission not approve the name change as proposed. Rather, the Office recommends that it be called Low Income Efficiency Program or something that identifies it as an effort to reduce natural gas usage by low income users.

The Office also asserts that the tariff language for the Low Income Program is inadequate. The Low Income Program provides money to the DWS Division of Housing and Community Development; this money is used to provide efficient furnaces and other services related to making homes more efficient in their use of natural gas. The program also provides money for several Low Income Assistance Agencies to perform weatherization activities. Tables of eligible weatherization products are found as part of the Weatherization Program tariff, but they are not listed as part of the Low Income Program. Furthermore, tables of eligible appliances are found as part of the Appliance Program, but are not listed as part of the Low Income

Program. The tariff for the Low Income Program must be specific enough to clearly identify all program details, including the qualifying weatherization and appliance measures. Thus, the Office recommends that the Commission require the Low Income tariff be modified to reference the existing tables in the other two program tariffs.

The Office also notes that the current administration of the program provides little or no verification by the Company that the money given out is actually going to the appliances or weatherization products for which it is being spent. The Office plans to further discuss this issue of verification with the Company and the full DSM Advisory Group.

Business Custom Program

The Business Custom Program encourages businesses to install efficient products and systems of products that may not be itemized in the Business Program due to their complex nature. This program requires that businesses first contract consultants to do an engineering analysis of their facilities/operations to determine what kinds of systems may result in reduced Dth. The business can then work with the Company to determine what types of rebates may be granted for the proposed systems.

The Office had some concerns about the details of the program operations. The Office met with the Company and sent follow up data requests on the topic. Based on this additional information, the Office's concerns were alleviated and the Office agrees that the program has potential to reduce Dth from participating businesses. However, the Office believes that the proposed tariff language should be augmented to provide a more clear understanding of the steps associated with participating in the program. For example, the Company's application indicates, "Businesses would be required to contract with the Company to implement the findings from the energy management service before analysis and support would be provided." Such a requirement for a contract is not clearly identified in the tariff. (Although the "Rebate Levels" section does mention that "the customer shall be required to enter into a Program Agreement with the Company in order to be eligible for rebates," it doesn't indicate specifically at what point in the process the agreement must be signed.) Further, the "Program Description" section indicates that the project information will be provided in two reports, the Pre-Installation Report and Post-Installation Report. However, the Post-Installation Report is not mentioned anywhere else in the tariff. In response to the

Office's data requests (see Attachment 1, Questar's response to OCS DR 1.02), the Company indicated that the Post-Installation Report would detail a verification of installation and savings. The Company's response also referenced the "Strategic Energy management Service (SEMS)" and described its integration with the two reports. No mention of the SEMS is included in the tariff. The SEMS is described in the program exhibit, again creating a confusing lack of consistency between the tariff and the exhibit.

The Office recommends that the Commission require the Company to amend the tariff for the Business Custom Rebates (2.16) to clearly identify all requirements; the specific steps associated with evaluation, application, and associated required contracts; and integrate, as appropriate, a full description of the SEMS, the PIR, and POR as currently provided in the program exhibit and the DR response provided in Attachment 1.

Recommendations

The Office recommends that the Commission take the following actions regarding the Company's application:

- Reject the rebate credit as part of the Builder Program until it has been fully explained and supported and require that the Builder Rebates tariff (2.11) be modified as follows:
    - Remove paragraph three from the "Program Description" section.
    - Remove the reference to "credited" in paragraph four of the "Program Description" section.
- Allow the Company to file supplemental information explaining and supporting the rebate credit proposal related to the Builder Program either (1) within this docket allowing for stakeholder comments before any Commission order or (2) in a subsequent docket.
- Reject the proposed name of the Low Income Assistance Program and require the Company to choose a name which denotes that the program is related to natural gas efficiency, such as Low Income Efficiency Program.
- Require the Company to revise the Low Income Programs' tariff language to include or reference the eligible appliances and weatherization products; and to clarify the programs' two separate operations.

- Require the Company to revise the Business Custom Programs' tariff language to better explain the programs' requirements and procedures.
- Require the Company to work more closely with its DSM Advisory Group regarding the details of the expenditures within the Market Transformation budget, including specific costs and associated benefits.

Further, the Office recommends that the Commission require the Company to make the following changes in its future DSM budget filings:

- Include current year actual expenditures with remaining year forecast as part of the budget comparison.
- Eliminate the program exhibits and ensure that tariff language includes a complete and easily understood description of the programs.