

State of Utah Department of Commerce Division of Public Utilities

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MEMORANDUM

REDACTED - PUBLIC

- To: Utah Public Service Commission
- From: Utah Division of Public Utilities

Chris Parker, Director Artie Powell, Energy Section Manager Brenda Salter, Technical Consultant

- Date: January 19, 2016
- Re: Audit of Questar Gas Company's Energy Efficiency Program Expenditures Docket No. 15-057-18

RECOMMENDATION (CONDITIONAL APPROVAL)

The Division of Public Utilities (Division or DPU) performed an audit¹ of Questar Gas Company's (Questar or Company) actual energy efficiency program expenditures for the period October 1, 2014 through September 30, 2015. Before the Division requests approval of Questar's rates on a permanent basis, the Division recommends to the Public Service Commission (Commission) that it have Questar remove the cost of specified **Commission** from Questar's energy efficiency program. The Division requests Questar file a letter with the



¹ In using the term "Audit" the Division notes that it did not conduct an independent audit as defined and conducted under Generally Accepted Auditing Standards as promulgated under the Auditing Standards Board of the American Institute of Certified Public Accountants. In this instance "Audit" means compliance review.

Commission verifying this adjustment explaining any effect this adjustment has on the amortization rate.

ISSUE

Questar filed on October 30, 2015, an application with the Commission to maintain the current energy efficiency amortization rate. On November 23, 2015, the Division issued a response to the Commission's Action Request recommending the Commission grant this amortization rate on an interim basis until the Division has had adequate opportunity to review and audit the entries to insure proper accounting has been recorded for the spent dollars. This memorandum reports on our audit.

DISCUSSION

An audit was performed to verify actual energy efficiency program expenditures for the twelve month period ending September 30, 2015. The audit consisted of reviewing actual expenditure invoices for chosen expenditure types under various energy efficiency projects identified in the *Energy Efficiency Program Expenditure Report*, Corrected Exhibit 1.2 page 2 of 2 filed on November 25, 2015 with the Company's reply comments to the Commission's November 18, 2015 amended Action Request.

BACKGROUND

Projects included in the energy efficiency program include ThermWise Home Energy Plan, ThermWise Builder Rebates, ThermWise Appliance Rebates, ThermWise Business Rebates, Market Transformation, Low Income Weatherization, ThermWise Weatherization Rebates, ThermWise Business Custom Rebates and ThermWise Energy Comparison Report. Questar contracted with Parago Services Corp., Blackhawk Engagement Solutions, and Nexant, Inc. (Nexant) to administer the rebate programs. Questar contracted with Faktory, Inc. to administer the media campaign.

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AUDIT

The information required to review the energy efficiency program for the twelve month period ending September 30, 2015 was provided to the Division through the data request process. The Company was responsive in supplying the Division with the requested documentation of energy efficiency revenue and expenses.

The audit was conducted to verify a sampling of actual amounts listed on the *Energy Efficiency Program Expenditure Report*. The review consisted of a review of twelve months of expenses, October 1, 2014 through September 30, 2015. In DPU data request 1.1, Questar provided the Division with a report detailing all expenses in each energy efficiency program for the twelve month period. The Division reviewed this report, and out of each energy efficiency program a sampling of invoices and/or supporting documentation was requested for review. Questar supplied copies of applicable documentation, invoices and/or schedules to support expenses reviewed. The documentation was verified and reconciled to the amounts presented on Questar Corrected Exhibit 1.2, Page 2 of 2 filed with the Company's reply comments.

The Division's review of the energy efficiency expenditures for the period noted above identified specific **and and a set included as hospitality in Market Transformation contracts.** Through data requests, the Division questioned the use of these **and Questar's response stated the and and**

. The Company noted that the ThermWise program did not receive the valued at valued at and also the valued at valued at valued. The Division is recommending these costs be removed from the ThermWise program.

The Company's confidential response to DPU data request 2.03(b) stated that of the Market Transformation contract costs,

² In reviewing expenses allocated to the ThermWise program³ the Division noted that ³ was expensed to the program. On December 31, 2015 the Company made a correcting entry to remove ³ from the ThermWise program. The Company provided the Division with a copy of the reversing entry. The Division questioned Questar concerning other contract costs that maybe split between the ThermWise program and Questar Gas Company. The Company stated no other ThermWise contracts share an allocation with the Company.

The Commission's November 30, 2015, amended action request asked the Company for an explanation of the differences between the information presented in Exhibit 1.1 and the information presented in the monthly financial statements. The Company explained that the difference was due to quarter end accruals for energy efficiency expenses which were incurred in September but were not invoiced until October. Accrual based accounting of revenue and expenses is the most commonly used accounting method. The Company anticipates the next filing of the energy efficiency expenses to include this same type of difference based on accrual accounting. In future energy efficiency expense filings the Company will include an explanation of any accrual differences. The Company is also working with their accounting department to try to eliminate accruals between quarters.

In verifying the carrying charge included in the energy efficiency expense Corrected Exhibit 1.1, the Division requested the Company provide supporting documentation on how the carrying charge was calculated. The Company noted that the carrying charge calculation included uncashed rebates that were not included in Corrected Exhibit 1.1. With this additional information, the Division was able to verify the carrying charge calculation.

On April 29, 2015 in Docket No. 14-057-32 the Commission authorized an annual carrying charge interest rate of 4.51% effective July 1, 2015 through February 29, 2016. In reviewing the

³ The Company's response to DPU DR 1.01

carrying charges applied to the energy efficiency expense the Division noted that the carrying charge rate applied to the periods July through October 2015 were not the Commission approved 4.51% annual rate. Discussions with the Company revealed that the rate included a tax deferral deduction of approximately 38% for under-collected monthly balances. Over-collected balances are charged the approved carrying charge rate of 4.51%. The tax deferral deduction adjustment resulted from Mountain Fuel Supply's application for tariff changes and implementation of proposed Tariff No. 200 in Docket No. 82-057-16. Although the tax deferral deduction was implemented in 1982, it was not applied to the energy efficiency account until July 2015. The Division and the Company agree that the tax deferral deduction should be evaluated further but that the Division's audit of the energy efficiency program is not the appropriate venue.

CONCLUSION

Except for those items addressed above, the actual energy efficiency expenditures through September 30, 2015 as presented in Questar Docket No. 15-057-18, Corrected Exhibit 1.2, page 2 of 2 appear to be correct as stated. The Division requests, prior to finalizing the interim rates, that Questar provide to the Commission verification of the removal of the **Exception** and explain any effect on the amortization rate based on removing the **Exception** and the **Exception**

reversing entry.

CC Barrie McKay, Questar Gas Company Mike Orton, Questar Gas Company Michele Beck, Office of Consumer Services Service List