

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH**

IN THE MATTER OF THE APPLICATION)
 OF QUESTAR GAS COMPANY FOR AN) DOCKET NO. 02-057-02
 INCREASE IN ITS RATES AND)
 CHARGES)

**SURREBUTTAL TESTIMONY OF DAVID NICHOLS
ON BEHALF OF THE UTAH ENERGY OFFICE
UTAH DEPARTMENT OF NATURAL RESOURCES**

1

2 **Q. Please state your name and business address.**

3 A. David Nichols, Suite 6B, 1070 Beacon Street, Brookline, Massachusetts 02446.

4 **Q. Did you file direct and rebuttal testimony in this case?**

5 A. Yes.

6 **Q. What is the purpose of this surrebuttal testimony?**

7 A. My purpose is to address rebuttal testimony presented by witnesses for the Questar Gas
8 Company and for the Division of Public Utilities.

9 **Q. Please comment on the testimony of the Company.**

10 A. In his rebuttal testimony Barrie L. McKay states that usage per customer is declining due to
11 price-induced conservation and higher federal energy efficiency standards for gas applianc-
12 es. For these reasons, Mr. McKay concludes it will be hard to find cost-effective DSM
13 program measures in Utah.

1 I do not agree with the Company’s assessment of the potential for cost-effective DSM in
2 the face of declining customer usage. Even with stable or declining use per customer, de-
3 mand-side management can be cost-effective for the State, the ratepayers, and the utility,
4 for reasons that I set forth in my direct testimony. Neither Mr. McKay nor any other
5 Questar witness rebuts my points about increasing demand for natural gas and the likeli-
6 hood of long-run increases in the real costs of gas supply and delivery.

7
8 Mr. McKay also states that other gas utilities have found it hard to identify cost-effective
9 DSM programs. In my direct testimony I gave several examples of gas utilities which have
10 identified and are pursuing DSM that is subject to demonstration of cost-effectiveness.
11 More such utilities can be identified; but perhaps the real point here is not what other utili-
12 ties do or do not do. The point is that Questar has not recently tried to study this matter at
13 all; either through surveys of customer end-use or their integrated resource plan.

14
15 Mr. McKay states that QGC is proposing a “usage tracker” in part as a response to my dis-
16 cussion of mechanisms which can address undue revenue loss by utilities doing DSM. Here
17 I should like to state that I have not proposed any such usage tracker as the Company has
18 proposed in this case. My pre-filed direct testimony expressed the need for Questar to be
19 able to recover costs of investments in DSM and that in all jurisdictions where gas utilities
20 have been authorized by regulators to pursue DSM, cost recovery mechanisms unique to
21 DSM have been approved and employed. I also stated that if the Commissions desires to

1 direct the Company to invest in DSM it should also consider how to address the revenue
2 loss Questar would experience.

3 **Q. Please comment on the testimony of the Division of Public Utilities.**

4 A Mr. Ron Burrup states that the Division believes the discussion and recommendations on
5 DSM in my direct testimony have merit. He states that Questar should evaluate DSM al-
6 ternatives in relation to anticipated gas needs. However, he suggests that these issues be
7 addressed through the IRP process. I agree that it is logical to pursue gas DSM in the con-
8 text of the IRP process. However, the IRP process does not address cost recovery at all.
9 Given the Company's demonstrated lack of interest in evaluating demand side resource op-
10 tions in past IRPs, I wonder whether Questar would even conduct DSM studies without the
11 costs for such analysis being included in base rates.

12

13 The link between DSM cost-effectiveness analysis and utility cost recovery is suggested in
14 the testimony of Division witness Abdinasir M. Abdulle. He notes that the Division sup-
15 ports cost-effective demand side management programs which enable participants to use
16 energy efficiently, resulting in energy savings. He supports inclusion of increased costs for
17 the weatherization program in rates in this case. I note that Kelly A. Francone for the
18 Committee of Consumer Services also supports increasing the weatherization program
19 amount in base rates to \$500,000, noting that the program is run efficiently and cost-
20 effectively. No-one would expect Questar to provide funds for the weatherization program

1 without cost recovery. Would Questar undertake any serious analytical effort on other
2 DSM options without similar assurance?

3 **Q. How can the Commission address the need to analyze and develop cost-effective DSM**
4 **through the IRP process?**

5 A. I believe the pursuit of DSM issues in the IRP process requires clear signals from the
6 Commission in this case. For this reason I have developed a multi-part recommendation
7 that integrates the idea of pursuing DSM in the IRP process with the suggestions I made in
8 my direct testimony.

9 **Q. Please describe your recommendation to the Commission.**

10 A. I recommend that the Commission consider taking the following actions in this case.

- 11 • Direct Questar to fund an economic assessment of achievable natural gas DSM in
12 Questar's Utah service territory, and include costs of \$50,000 for the study in base rates.
13 The \$50,000 is my estimate of what it may cost to prepare the study, extrapolating from my
14 own recent experience preparing an electric DSM study for Utah.
- 15 • Direct that the study be conducted in collaboration with utility regulators, other state agen-
16 cies, energy consumer groups, energy efficiency specialists, environmental groups, and
17 other organizations interested in the development of gas DSM. This group would be
18 known as *the Natural Gas DSM Advisory Group*. The Advisory Group could be co-chaired
19 by Questar Gas Company and the Utah Energy Office.
- 20 • Provide that the *Natural Gas DSM Advisory Group* collaboratively work with Questar to:

- 1 ○ Develop a scope of work for the economic assessment of achievable DSM
- 2 measures,
- 3 ○ Draft a request for proposals to perform tasks outlined in the scope of work,
- 4 ○ Prepare a bidders list,
- 5 ○ Design screening criteria for selection of a contractor, and
- 6 ○ Participate in the review, evaluation and selection of a qualified contractor to con-
- 7 duct the Study.
- 8 • Direct that the Study be completed and presented to the *Advisory Group* and the Commis-
- 9 sion no later than March 31, 2003.
- 10 • Indicate that the results of the Study should be reflected in Questar's next Integrated Re-
- 11 source Plan, due May 1, 2003, and be the subject of a formal Commission hearing as part
- 12 of the IRP docket.

13 **Q. What would happen after the filing of the IRP?**

14 A. After the filing of the IRP, the *Natural Gas DSM Advisory Group* would consider methods

15 to implement that DSM, if any, which is found cost-effective in the Study and/or is includ-

16 ed in the IRP. Alternative methods of program delivery to be examined could include de-

17 livery by Questar Gas Company, by a state agency, or by an independent third party. Fol-

18 lowing the consideration of alternative delivery approaches, Questar would develop pro-

19 gram tariffs for DSM programs which it finds cost-effective and feasible, as appropriate,

20 and file them with the Commission by August 1, 2003.

21 **Q. Do you have any other recommendations to the Commission?**

1 A. Yes. After my direct testimony was filed, UEO received, and I reviewed, the QGC re-
2 sponse to UEO DR 1.4. The material provided in this response shows that Questar provides
3 incentives to builders and equipment distributors and dealers in connection with programs
4 to promote building of homes using gas and the adoption of gas appliances. The annual
5 budget for these programs is about \$194,000. Review of the program descriptions and
6 promotional materials provided shows that no information about the benefits of efficiency
7 is included in these programs. The programs do not promote adequate levels of insulation
8 in new homes, nor do they explain that appliances come at different efficiency levels. The
9 programs do not identify equipment rated as 'Energy Star' in the voluntary labeling pro-
10 grams operated by the U.S. Department of Energy and Environmental protection Agency.
11 The programs do not aid ultimate consumers to understand that their energy bills will be
12 materially affected, year after year, by the efficiency features of their buildings and equip-
13 ment. Quite the contrary. The programs, which include co-operative advertising to the pub-
14 lic, claim that natural gas simply *is* efficient. This claim is incorrect and misleading. The
15 Commission should direct the Company to institute minimum (not minimal) insulation re-
16 quirements for any builder programs it wishes to promote with ratepayer funds; and to
17 identify the availability and benefits of Energy Star appliances in all its promotional activi-
18 ty and literature.

19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.