



State of Utah
DEPARTMENT OF COMMERCE
Committee of Consumer Services

To: The Public Service Commission of Utah

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Date: December 22, 2006

Subject: Utah Committee of Consumer Services' Comments on Questar Gas Company's Application for Expedited Approval of Demand Side Management and a Market Transformation Initiative - Docket No. 05-057-T01.

Background

On December 5, 2006 Questar Gas Company ("Questar" or "Company") submitted an Application to the Public Service Commission ("Commission") for expedited approval of Demand Side Management (DSM) Programs and a Market Transformation Initiative.

As noted in its Application, the Company is submitting this DSM Plan as a requirement of the Stipulation approved by the Commission in Docket 05-057-T01. The Committee of Consumer Services ("Committee") has actively participated in the DSM Advisory Group meetings leading up to the submission of the DSM Programs by the Company. The Committee has reviewed all of the information provided by the Company to the Advisory Group during each of these meetings, including several different cost-effectiveness spreadsheets.

Discussion

Generally, the Committee supports the DSM Programs submitted by the Company. In its Application the Company notes that there have been three

important DSM Advisory Group meetings, two in November and one early this December where final program designs were reviewed. Thus, in the course of roughly six weeks, the Company and its consultants have put together a relatively extensive set of DSM Programs to promote energy efficiency within its service territory.

The Company should be commended for its hard work in putting together an initial set of DSM Programs; however, we believe that this filing is the first step in a longer process. The Company also notes that ongoing work is needed as DSM Programs are reviewed and refined to ensure that cost-effective DSM opportunities are offered to a broad segment of the GS-1 class.

The expedited nature of the development and submission of the Company's Application has, not unexpectedly, resulted in a number of unresolved issues. The Committee believes that many of the unresolved issues can be addressed in future DSM Advisory Group meetings. Our particular concern is that more serious consideration needs to be given to program monitoring and evaluation, as well as how overall success of the DSM experiment will be judged at the end of the three-year pilot period.

There have been numerous presentations and information provided to the stakeholders on the cost-effective potential for DSM implementation since the Stipulation Hearing and the initial Nexant Report. Based on the Committee's count, Questar has provided three additional sets of DSM program summaries; each with different DSM measures, and cost-effectiveness reports. The fact that these DSM program summaries are different is not what concerns the Committee. We would, in fact, expect individual programs to evolve over time as the Company "sharpens its pencil" on the opportunities for cost-effective DSM.

However, the range of estimates on cost-effective potentials has been quite considerable, particularly relative to the initial representation provided in the August 2006 Nexant Report supporting the Company's proposed CET. In fact, the Company estimates a budget of some \$7.0 million in DSM expenditures in this filing – an amount that is \$2.0 million greater than the highest range included in the Stipulation in this docket. The Committee believes that the uncertainty created by the DSM proposals that have evolved over time supports our recommendation that considerable attention needs to be given to program monitoring and evaluation, as well as the criteria to be used to determine if this overall pilot will be deemed a success.

Contributing to this uncertainty is the fact that energy efficiency, like any utility resource, is subject to a number of exogenous factors that can, and will, impact its future effectiveness. Natural gas commodity prices, changes in the economy, and changes in customer tastes and preferences will all impact future program effectiveness. Additionally, costs of DSM technologies and installation will also impact this effectiveness. A good example of this is the cost of compliance to the new International Energy Conservation Code ("IECC 2006") that becomes effective in Utah on January 1, 2007. This code requires the adoption of more stringent building codes, and the DSM Advisory Group needs to consider how

these new standards impact the programs currently being proposed by the Company.

The Committee believes that the measurement and verification (“M&V”) methodologies which will be used during the course of the DSM pilot period are not clearly spelled out at this time, and we hope that this can be remedied over the next several months in DSM Advisory Group meetings. Considering that at least three companies (Nexant, PECl and Questar) are involved in program implementation, it is important to have a consistent approach to M&V and reporting. Further, the auditing methods and reporting requirements that will be used by the Division of Public Utilities has yet to be explicitly defined.

The Company’s Application also includes a market awareness campaign designed to change consumer and market participant behavior and to encourage demand for energy-efficient products and practices. While the Committee supports the Company’s market transformation proposal, we recognize that the success of these efforts are considerably more difficult to gauge and hope that the DSM Advisory Group can establish important milestones, provide input into the surveys the Company has proposed to conduct, and develop other potential mechanisms for setting market transformation goals.

DSM Program Analysis

Questar is requesting that five DSM programs be approved by the Commission. Those programs are: 1) the Residential Appliance Program; 2) the Energy Star® New Homes Program; 3) the Commercial Rebate Program; 4) the Residential Home Energy Audit and Weatherization Program; and 5) increased funding for the Low Income Weatherization Assistance Program (LIWAP). Additionally, there will be a Market Transformation component.

Each of the first four DSM Programs consists of a number of specific measures which are described in the Company’s Application. As the programs were being designed, each measure within each program was subjected to cost-effectiveness tests. Administrative and marketing costs were included only in the cost-effectiveness test for each program due to the complexity of attempting to assign portions of those costs to each program measure. Although there may be reasons to include certain measures which do not pass some of the benefit/cost tests, this Application includes only those measures that pass those tests.

The Company created an Excel-based model (DSM model) for testing the cost-effectiveness of DSM programs and measures. The DSM Model is based on the California Standard Practice Manual for the Economic Analysis of Demand-Side Programs and Projects, dated October 2001. The DSM Model allows sensitivities to be run on the various key inputs and assumptions. Although the Total Resource Cost (TRC) test is generally used, the Advisory Group agreed that the results from all four tests should be reviewed.

Recommendations

The Committee believes that developing measurement and verification methodologies to be used during the DSM pilot period is the most important outstanding issue. Those M&V methodologies should include determining the criteria that will be used to judge the success of the DSM three-year pilot. Additionally, the reporting requirements and auditing approach to be used by the Division of Public Utilities should be defined.

The Committee recommends that the Commission approve Questar's Application with the requirement that measurement and verification issues be examined by the DSM Advisory Group.