

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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In the Matter of the Approval of the	)	<u>DOCKET NO. 05-057-T01</u>
Conservation Enabling Tariff Adjustment	)	
Option and Accounting Orders.	)	<u>ORDER</u>
	)	

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ISSUED: January 16, 2007

SYNOPSIS

The Commission approves the application for expedited approval of demand side management programs and a market transformation initiative, and the associated tariff sheets describing these efforts, as modified by this Order, to be effective January 1, 2006.

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By The Commission:

On December 5, 2006, pursuant to the Commission's Order dated October 5, 2006, approving the Settlement Stipulation filed in this docket, Questar Gas Company ("Questar") filed its application for expedited approval of the revised tariff sheets describing proposed Demand Side Management ("DSM") Programs and a related market transformation initiative. The accounting treatment and cost recovery methods for the DSM programs and market transformation initiative were approved in this Docket by the Commission's October 5, 2006, Order approving the Settlement Stipulation. The proposed programs, designed to cause some of Questar's customers to reduce the amount of natural gas they use, will provide incentives and educate Questar's customers. The overall intent is that the cost of the programs will be less than the discounted net-present value of the gas not consumed. The

DSM programs offer potential incentives to all of Questar's residential customers and many commercial customers.

The DSM programs, and associated tariffs, were jointly designed by Questar, the Division of Public Utilities ("Division"), the Committee of Consumer Services ("Committee"), and other interested stakeholders working through the Natural Gas DSM Advisory Group ("DSM Advisory Group"). The Commission established the DSM Advisory Group when it approved the Settlement Stipulation. This approval Order called for the submission of proposed DSM programs no later than 60 days following the Settlement Stipulation's approval. The DSM Advisory Group met on three occasions: November 1, November 21 and finally on December 1 when the final program designs were reviewed. Additionally, interested parties met on November 29 to review Questar's DSM benefit-cost model, which is used to calculate the expected net benefits, costs, and benefit-cost ratios for each of the proposed DSM programs and measures.

For the first year, the proposed DSM programs and market transformation efforts are forecasted to cost ratepayers \$6,988,502. Estimated budgets for the second and third years' operations were not submitted as part of the application. The subsequent years' budgets will likely be different, as the amounts for program development and marketing would be expected to decline as much of the start-up design work and initial consumer awareness work will have been done already.

The estimated values of the discounted current and future net benefits and costs for each of the DSM programs are calculated by Questar in four different ways. First, the Total Resource Cost Test ("TRC") measures the net costs of a DSM program as a resource

option based on the total costs of the program, including both the participants' and the utility's costs. Second, the Utility Cost Test ("UC") measures the net costs of a DSM program as a resource option based on the costs incurred by the utility. Third, the Ratepayer Impact Measure Test ("RIM") measures the effect on rates due to changes in utility revenues and operating costs caused by the program. Fourth, the Participant Cost Test ("PC") measures the quantifiable benefits and costs only to the customers who directly participate in a program. The following table lists calculated net present value for each of the four metrics and the associated benefit/cost ratio.

**Discounted Current and Future Net Benefits and Costs and Benefit/Cost Ratios**

Test	Net Present Value of Benefits minus Costs	Benefit/Cost Ratios
Total Resource Cost	\$8,758,955	1.3
Utility	\$17,149,603	1.9
Ratepayer Impact Measure	\$8,588,257	1.3
Participant	\$36,296,935	2.5

**DISCUSSION**

On December 22, 2006, the Commission received the Division's comments, the Committee's comments, and testimony from Howard Geller on behalf of Southwest Energy Efficiency Project and Utah Clean Energy. While all of these parties recommend the Commission approve Questar's application, the Committee suggests the Commission impose certain conditions relating to the measurement and verification of installed measures as part of the approval. The Division comments that even though a few specific DSM program measures either barely pass or barely fail some of the benefit-cost tests, inclusion of these

measures will be a net positive for the overall DSM programs. Likewise the Division also points out the importance of continued and active monitoring of the proposed DSM programs on an ongoing basis.

The Division also conducts sensitivity analyses on the benefit-cost ratios of the programs with respect to the discount rate, projected gas savings, the price of purchased gas, and the level of participation. The sensitivity analyses identify which DSM program measures are most vulnerable to changes in the above factors. The Division demonstrates that the overall programs fair well in the sensitivity analyses, with most retaining benefit-cost ratios greater than one, even under significant changes in the modeling assumptions. The results do illustrate the importance of establishing adequate monitoring and verification protocols, and having them in place as the programs are implemented. To the extent the proposed DSM programs actually achieve the estimated savings, Utah ratepayers will be well served by the operation of these programs. However, in order to find that the continued operation of the proposed DSM programs is in the public interest, on a going forward basis, the projected benefits need to be substantially realized. Therefore, the Commission requires that sufficient evaluations and milestone checkpoints be built into the implementation plans to ensure that the actual realized savings can be compared to the forecasted savings. In order for the programs to achieve the maximum actual realized benefit-cost ratios they will need to be monitored and adjusted over time.

### **DSM PROGRAMS**

Questar retained Nexant, Inc. (“Nexant”) to prepare a market characterization report identifying target markets and potential DSM programs that could be expected to provide significant savings for customers in 2007 and beyond. This report was made available for review to members of the DSM Advisory Group. Based on input from its consultants and from the DSM Advisory Group, Questar represents in its application that it is proposing comprehensive energy-efficiency programs and initiatives for Commission approval. Questar is proposing five DSM programs targeting specific market segments. In addition, Questar is proposing a market transformation initiative to support the five programs and to begin the process of transforming the Utah natural gas market by increasing the demand for energy-efficient appliances, products, buildings and practices. The five DSM programs are: 1) The Residential Appliance Program administered by Portland Energy Conservation, Inc. (“PECI”), 2) the ENERGY STAR® New Homes Program administered by PECI, 3) the Commercial Rebate Program administered by Nexant, 4) the Residential Home Energy Audit and Weatherization Program administered jointly by Nexant and Questar Gas, and 5) increased funding from the existing \$250,000 to a total ongoing annual funding level of \$500,000 for the Low Income Weatherization Assistance Program administered by the Utah Department of Community and Economic Development.

In addition to the five DSM programs, Questar is proposing a comprehensive market transformation initiative with five distinct components. Questar is proposing strategies to influence each market segment in the GS rate class to adopt higher levels of energy-efficiency. Initial market transformation goals include: 1) Achieving higher

penetration of high-efficiency furnaces and water heaters in new and existing buildings, 2) recruiting trade allies to deliver a complete line of energy-efficiency products, 3) encouraging trade allies to price the higher-efficiency products competitively with lower-efficiency products, 4) positioning energy-efficiency products as the market leaders, and 5) providing training to, and working with, code enforcement officials to ensure energy-efficiency aspects of the building codes are understood and adopted by builders. Questar proposes including a one-time expenditure of \$50,000 to facilitate code enforcement training as part of the first year budget.

### **BUDGET**

Proposed budgets for each of the individual programs have been included in the program descriptions. The total proposed budget for the first year of the DSM programs and market transformation initiative is estimated by Questar at \$6.988 million; of that amount approximately \$1.3 million is already in the DSM deferral account as a result of the Commission's October 5, 2006 Order approving the Settlement Stipulation. Therefore, the estimated addition to the deferral account, over the first year, of approving Questar's application will be approximately \$5.7 million.

Questar represents that the budget estimates are based on the expected participation levels to be achieved by each program administrator. To the extent actual participation levels differ from the projected levels, actual costs will, by necessity, differ from the budgeted amounts. To ensure adequate oversight of proposed DSM program changes and actual spending levels, we direct Questar to regularly apprise the Division of actual participation levels relative to projections. To the extent participation levels differ

significantly from the projected levels, either positively or negatively, Questar shall report to the Commission the expected changes to the TRC, UC, RIM, and PC metrics. When each program reaches an expenditure level of ninety percent of its budgeted amount, Questar shall report to the Commission that the ninety percent level has been reached, and Questar shall also provide the Commission with its best estimate of the projected spending needed for the remainder of the year for that program. Questar shall keep detailed records of DSM expenditures not only by program or measure type, but also by direct incentive, administration, and other expense categories. Questar proposes in this application that all program expenditures shall be booked to Account 182.4.

#### **PROGRAM EVALUATION**

Questar proposes that it will perform ongoing program evaluations over the life of the programs. Questar further proposes that an in-depth, independent evaluation will be conducted once the programs have been operating for what it describes as a reasonable period of time. As noted earlier in the Order, it is important the programs' actual participation and savings levels are reported and tracked. Therefore, a need exists for monitoring and verification, by the Division, Questar, and its contractors, to ensure that the implementation proceeds according to the public interest. The Commission directs Questar to work with the Division, and other interested stakeholders, to develop processes and methods to monitor, verify, and evaluate the proposed DSM programs. These processes and methods shall be submitted to the Commission for approval within 180 days of this Order. These monitoring and evaluation processes shall, at a minimum, address a first heating season evaluation of the programs as well as the ongoing monitoring and verification procedures. The in-depth

evaluation referred to in the application shall take place after the third heating season of program implementation.

The limited first heating season evaluation will, to the extent possible, address impact evaluation, participation levels, measure retention, customer awareness, administration and process efficiency, and customer satisfaction. The results from the ongoing monitoring and verification efforts as well as the initial and final evaluations will be used to refine the existing programs and to increase the accuracy of future DSM modeling. The results of all the evaluations shall be presented to the Commission in the form of timely detailed reports. Any significant changes proposed to the structure or the scope of the proposed DSM programs (such as budgets and participation levels) shall be submitted to the Commission for approval.

### **ORDER**

NOW, THEREFORE, IT IS HEREBY ORDERED that:

1. Questar's application for expedited approval of DSM programs and a market transformation initiative is approved as modified by this Order, effective as of January 1, 2007.
2. The Tariff Sheets associated with Questar's application are approved.
3. Questar is authorized to spend the budgeted amounts included in the application for each program.
4. Questar shall report to the Commission when the amount spent for any program reaches ninety percent of the budgeted amount, along with an estimate of the projected spending needed for the remainder of the year. To the extent the



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projected spending exceeds the original budgeted amount Questar must seek Commission approval for the higher projected levels of spending.

5. The proposed DSM programs and market transformation initiative are approved and Questar may book the associated costs to Account 182.4.
6. Questar shall keep detailed records of all DSM expenditures and shall track them by each separate DSM program or marketing initiative, and by expenditure type. Summary statements prepared from these records shall be presented to the Commission as part of the Account 182.4 approval process.
7. Questar shall submit a second year budget by October 1, 2007 for the second year of the proposed DSM programs and the market transformation initiative.
8. Questar shall submit a third year budget by October 1, 2008 for the third year of the proposed DSM programs and the market transformation initiative.
9. The Division shall work with Questar to develop a first heating season evaluation plan and procedures to undertake monitoring and verification during the DSM programs' operations, which must be submitted to the Commission for approval within 180 days of this Order.
10. The Division shall submit, at a minimum, annual reports regarding the effectiveness, evaluation and measurement of Questar's DSM programs.

Pursuant to Utah Code Ann. ' ' 63-46b-12 and 54-7-15, agency review or rehearing of this order may be obtained by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for

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agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code Ann. ' ' 63-46b-14 and 63-46b-16 and the Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah this 16<sup>th</sup> day of January, 2007.

/s/ Ric Campbell, Chairman

/s/ Ted Boyer, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard  
Commission Secretary  
G#52058