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Division of Public Utilities

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MEMORANDUM

To: Public Service Commission

From: Division of Public Utilities
Philip J. Powlick, Director
Energy Section
Artie Powell, Manager
Brenda Salter, Utility Analyst

Date: November 15, 2010

Subject: Audit of Questar DSM Program Expenditures, Docket No. 10-057-11

ISSUE:

Questar Gas Company (QGC) filed on June 24, 2010 an application with the Public Service Commission (Commission) to amortize a balance of \$36,000,000 in the Demand Side Management deferred account and to increase the DNG rates for the GS rate class. On July 12, 2010, the Division of Public Utilities (Division) issued a memorandum to the Commission recommending they grant this rate increase 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.

RECOMMEND APPROVAL:

The Division has performed an audit of QGC's actual DSM program expenditures through May 31, 2010 and now recommends these rates be approved on a permanent basis.

DISCUSSION:

An audit was performed to verify actual DSM program expenditures for the ten month period ending May 31, 2010. The audit consisted of reviewing actual expenditure invoices for chosen expenditure types under various DSM projects identified in the *DSM Program Expenditure Report*, Exhibit 1.2 page 2 of 2.

BACKGROUND:

Projects included in the DSM program include Thermwise Home Energy Audit, Thermwise Builder Rebates, Thermwise Appliance Rebates, Thermwise Business Rebates, DSM Market Transformation, Low Income Weatherization, Thermwise Weatherization Rebates, Thermwise Multi-Family Rebates and Thermwise Business Custom Rebates. QGC has contracted with Portland Energy Conservation, Inc. (PECI) and Nexant, Inc. (Nexant) to administer the rebate programs. QGC has contracted with Richter7 to administer the media campaign. QGC has contracted with The CADMUS Group to administer the Evaluation of Questar's DSM program.

AUDIT:

The audit was conducted to verify a sampling of actual amounts listed on the *DSM Program Expenditure Report*. The review consisted of ten months, August, September, October, November, December 2009 and January, February, March, April and May of 2010, of expenses. Each DSM program consists of various expense categories and out of these categories a sampling of invoices were reviewed. It should be noted that the sample utilized for testing purposes was a judgmental rather than statistical sample. A materiality threshold of \$1,000 was used in the review.

The Division's review of the DSM expenditures brought to our attention the implementation of the Wyoming DSM program. Wyoming's DSM program began July 1, 2009 with an estimated budget of \$401,625¹. The Wyoming program differs from Utah's program in that it does not include Multi-family Rebates, Business Custom Rebates, Low Income Weatherization and it does not include funding for a Process and Impact Evaluation. Wyoming's DSM program is being managed and implemented by the same DSM personnel that manages Utah's DSM program. Direct costs are assigned to both the Utah and Wyoming programs by an Account code specific to each state. Also, each state has a separate Operations ID code. All costs are directly assigned to each program and all but the travel costs are reviewed by the DSM Program Manager prior to approval. DSM employee time is directly assigned via the DSM expense codes for both programs.

The Division's review of the DSM expenditures for the period noted above revealed several travel costs associated with Wyoming's DSM program being directly assigned to the Utah DSM program. Travel cost assignment is an issue in this application as well as being an issue in the past application, Docket No. 09-057-14. A review of the procedures for assigning costs revealed that DSM employee travel was entered by the traveling employee and did not require a second review of those cost assignments. As a result of this and the previous audit, Questar has implemented a review by the DSM Program Manager of all travel costs assigned to the DSM program.

The Division also noted that there may be a cost sharing component that is lacking in the current program. The administration of both the Wyoming and the Utah Program is currently handled

¹ Memorandum Opinion, Findings and Order, Public Service Commission of Wyoming, Issued June 17, 2009, paragraph 64.

by Utah DSM employees. Direct costs are assigned through QGC's DSM Expense coding but indirect costs, those that benefit both Utah and Wyoming such as training, software programs and membership dues, are assigned directly to Utah's DSM program. The Division understands that compared to Utah, the Wyoming DSM program is minimal² and any allocation percentage would be small relative to the Utah program. The Division recommends QGC review the cost sharing between Utah and Wyoming as the Wyoming program progresses to ensure Utah rate payers are not impacted unfairly.

QGC supplied copies of applicable documentation, invoices and/or schedules to support these expenses. The documentation was verified and reconciled to the amounts presented on QGC Exhibit 1.2, Page 2 of 2. No material exceptions between the supporting documentation and the amounts reported by QGC were noted.

CONCLUSION:

The actual DSM expenditures through May 31, 2010 as presented on QGC Docket No. 10-057-11, Exhibit 1.2, page 2 of 2 appear to be correct as stated. The Division recommends that QGC review the cost sharing between Utah and Wyoming as the Wyoming DSM program progresses to ensure Utah rate payers are not impacted unfairly. Furthermore, the Division recommends that QGC report on this review as part of its request for the 2011 DSM budget for Utah.

Cc: Barrie McKay, Questar Gas Company
Michele Beck, Office of Consumer Services

² Utah's budgeted DSM for 2010 is \$36,125,295; Wyoming's estimated annual DSM budget is \$401,625.