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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

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To: The Public Service Commission
From: The Office of Consumer Services
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Division of Public Utilities
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Date: August 29, 2013

Subject: Docket 12-057-14

Application for Approval of the 2013 Year Budget for Energy Efficiency Programs and Market Transformation Initiative

Background

On July 31, 2013 Questar Gas Company ("Company") submitted to the Utah Public Service Commission ("Commission") notice that the Demand Side Management ("DSM") program Weatherization's expenses had exceeded one hundred percent of budget by the end of June 2013. This notice was given to comply with the order issued in Docket 05-057-T01 that requires the Company to notify the Commission when the budget of any program reaches ninety percent.

The Company estimates that current levels of participation in the Weatherization program will result in the program spending \$16.4 million, almost 200% of the approved budget. The Company states that the increased participation levels will increase the cost effectiveness of the overall program, and result in increased Dth savings. The Company requested that the Commission approve the higher budget level.

The Commission subsequently issued a Notice of Filing and Comment Period on August 27, 2013.

Analysis

Office Review of Weatherization Program

The Office of Consumer Services (“Office”) has reviewed the Cost/Benefit tests of the Weatherization program and agrees that the program is cost effective. Weatherization, is average in cost effectiveness compared to other Thermwise programs, with a Total Resource Cost Test of 1.2. However, it is also the largest program in terms of participants. Therefore, the program will benefit a greater number of participants than some of the more cost effective programs.

The Office has analyzed the actual participant numbers and costs of the measures within the Weatherization program, using the data that was provided by the Company in the Energy Efficiency Report filed on Aug 1, 2013. The Office found that the over runs are being caused by several different measures. Attic Insulation Tiers 1 and 2 for both Single Family and Multi Family Units are projected to exceed budget by the end of the year, and three of the four have already exceeded budget. These four measures make up over 65% of the total Weatherization program budget. Attic Insulation measures are cost effective with a TRC of 1.4 for Tier 1 and 1.0 for Tier 2. Duct Sealing Multi Family is over 340% of budget and is also a cost effective measure (TRC 1.8). The R-5 Windows measure is already over 800% of Budget and the Air Sealing Measure is already over 650% of budget. However, R-5 Windows and Air Sealing are not cost effective in the Total Resource Cost test (with a TRC of 0.9 and 0.7 respectively). Given the lack of cost effectiveness of R-5 Windows and Air Sealing the Office is concerned by the sharp increase in participation and the associated expenses. The Office recognizes that typically the cost-effectiveness has been measured at a program level rather than measure by measure. However, these large over-runs in individual measures that aren't cost effective should be further evaluated and program design changes may be appropriate before the Company files its plans for 2014 program offerings.

The Office agrees that the increase in participation will result in increased Dth savings and that cost per unit savings will go down. However, the Office is concerned that this budget increase request may set an inappropriate precedent. The Company makes the argument that the increase in expense results in increased Dth savings and uses that argument as justification for the budget increase. This same rationale could be used to justify a request for a “blank check” so long as the expenses produce Dth savings.

Office Concerns about Marketing Expenses

The Office notes that the participation above forecasted levels is related to concerns we have recently raised about the levels of expenditures on marketing efforts, both on a program specific basis and with the Company's Market Transformation Initiative. The Office asserts that such an unexpected increase in program participation is a significant indicator that rate payers are generally well informed as to the availability and benefits of this program. The Office argues that the participation levels indicate that additional marketing expenditures may not be necessary. Now that the Company is projecting total

DSM expenditures to be 36% above budget, the Company should evaluate any marketing costs that have not yet been incurred as to whether they are necessary and provide additional value to ratepayers. Reductions in these expenditures could offset the rate impact from cost over-runs in the Weatherization program.

The Office believes that the Company should reevaluate the amount of money being spent on marketing, both on an individual program basis and in the Market Transformation Initiative. An effective marketing program for all DSM programs should avoid any unnecessary costs, or costs that do not result in increased gains. As the Office has previously presented, the Company should provide significantly more information in its next annual DSM filing describing and justifying its efforts as being of benefit to ratepayers.

Office Comments on the Budget Process

The Office does not oppose the Company's request for the increased budget; rather the Office wishes to point out that the purpose in going through the DSM budget approval process is so that all parties involved will have reasonable expectations as to the expenses incurred by DSM throughout the year.

The Office believes that the purpose of the aforementioned order that requires the company to report any program at 90% of budget is to allow parties to weigh in before the budget has been exceeded. This threshold was set with the idea that there would be sufficient time for comment before the remaining 10% was spent. In this case the Weatherization budget was at 85% by the end of May and then at 105% by the end of June. Based on the burn rate of the budget, the Company could have reasonably inferred that the threshold would have been crossed and the budget expended within one month. In order to avoid a repeat of this scenario the Company should anticipate the threshold and make the filing proactively, or the Commission should consider revising the order. A new threshold percentage of budget could be set, or the order could be modified to require the Company to file notice when it is forecasting the budget to be expended within a certain number of days, such as 60 or 90 days.

Further, the Company should work with the DSM Advisory Committee to determine the reasons that their original budget projections were so far below actual and projected participation. Such an analysis could help avoid future budget over-runs and may also identify useful programmatic changes to improve cost effectiveness.

Impact on Amortization

The Office notes that the increased weatherization spending could potentially impact the amortization schedule without a change in the amortization rate. The Office understands that the Company will propose that amortization of the DSM Deferred Account 182.4 continue on the same schedule approved previously. This will require an increase in the current rate. To maintain the current schedule, the impact of the increased weatherization

budget will increase the amortization rate from \$0.2498/Dth to \$0.3852/Dth, which is an increase of over fifty percent. The Office will take a position on the appropriateness of this approach when the Company makes such a filing.

Recommendations

The Office recommends that the Commission take the following actions:

1. Approve the request for the revised budget level.
2. Reconsider the Budget Threshold for required notice by either resetting the percentage or requiring a minimum number of days before the budget is expended.
3. Require the Company to work with the DSM Advisory Group to determine the underlying factors leading to this circumstance in order to improve future forecasts.
4. Require the Company to evaluate whether the marketing expenses for individual programs as well as the overall Market Transformation Initiative are set at the correct level.