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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Docket No. 12-057-14

APPLICATION FOR APPROVAL OF THE)
2013 YEAR BUDGET FOR ENERGY)
EFFICIENCY PROGRAMS AND MARKET)
TRANSFORMATION INITIATIVE)

QUESTAR GAS COMPANY REPLY
COMMENTS TO DIVISION OF PUBLIC
UTILITIES AND OFFICE OF CONSUMER
SERVICES MEMORANDA

Questar Gas Company (Questar Gas or Company) respectfully submits to the Public Service Commission (Commission) reply comments to the Memorandum issued by the Office of Consumer Services (Office) dated August 29, 2013 as well as the Memorandum from the Division of Public Utilities (Division) dated September 3, 2013 concerning the higher-than-expected participation in the Weatherization Program, and the resulting request from the Company for the Commission’s approval to increase the overall ThermWise® budget from \$22.8 million to \$31 million for the 2013 program year.

I. BACKGROUND

On June 24, 2013, the Company filed a letter with the Commission reporting that the ThermWise® Weatherization Program had surpassed fifty percent (50%) of budget by the end of April 2013. The letter reported that higher-than-expected participation in the

attic insulation rebate measures had caused increased spending. The letter also indicated that if the four-months trend were to continue for the remainder of the year, total Weatherization Program spending could reach \$16.4 million, or nearly two hundred percent (200%) of budget.

The Company filed a report dated July 31, 2013, in compliance with the order issued in Docket No. 05-057-T01 (Order, January 16, 2007). Specifically, paragraph 4 of the Order stated:

Questar shall report to the Commission when the amount spent for any program reaches ninety percent of the budgeted amount, with an estimate of the projected spending needed for the remainder of the year. To the extent the projected spending exceeds the original budgeted amount Questar must seek Commission approval for the higher projected levels of spending.

The Company's July 31 letter reported that the Weatherization Program had not only reached ninety percent (90%) of budget, but had surpassed one hundred percent (100%) of budget by the end of June 2013. The letter also reaffirmed the two hundred percent (200%) of budget forecast from the June 24th letter, and requested that the Commission approve the higher Weatherization Program budget level.

The Division's September 3, 2013 Memorandum recommended "...that \$31 million be established as the new budget with the same caveat as stated above in the Commission's Order in Docket 05-057-T01 that any anticipated increase be brought before the Commission for approval."

The Office's August 29, 2013 Memorandum recommended 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.

II. DISCUSSION

The Company agrees with the Division's and the Office's recommendations for approval of the revised budget of \$31 million. The Company also agrees with Division's recommendation to apply the reporting requirements ordered in Docket No. 05-057-T01 to the revised budget.

The Company believes that the additional recommendations and other issues related to A) the Weatherization Program, B) marketing expenses, C) the budget process, and D) the impact on amortization raised in the Office's Memorandum require additional discussion and clarification from the Company.

A. Weatherization Program

The Weatherization program consists of multiple energy efficiency measures including Attic, Wall, and Floor insulation, Windows, and Air Sealing. Attic insulation measures constitute seventy-eight percent (78%) of the total 2013 Weatherization incentive budget.

Section 1 of the Office's Memorandum (*Office Review of Weatherization Program*) noted that several measures within the Weatherization Program contributed to the increased incentive spending. The Company recognizes this is true, though attic insulation measures do make up seventy-eight percent (78%) of actual Weatherization incentive spending through June 30, 2013.

The Office's Memorandum also recognized attic insulation measures as being cost effective (TRC results of 1.4 for Tier 1 and 1.0 for Tier 2) but singled out the R-5 Window

and Air Sealing measures as not yet meeting/exceeding a 1.0 TRC result. The Company believes that the R-5 Windows and Air Sealing measures are good examples of why cost effectiveness is most appropriately evaluated at the program level. Certain measures that are part of an emerging technology (such as R-5 Windows and Air Sealing) and are in their infancy are likely to have a higher incremental cost, which would cause a lower TRC result. The purpose of the ThermWise[®] programs is to promote and move the market to adopt energy efficient technologies. As certain efficiency measures are adopted and more individuals participate in the measure, incremental costs should decrease and measure cost effectiveness should improve. It is important to note that the Window and Air Sealing measures cited by the Office constitute eight percent (8%) of the total Weatherization program rebate dollars through June 30, 2013.

The Office also expressed concern that requesting a budget increase “may set an inappropriate precedent.” The Company believes that increased participation is an indicator of a program’s success and is consistent with the overall mission of the energy efficiency programs to help customers become as efficient in their natural gas usage as possible. Increasing participation helps to achieve this goal and results in increased cost effectiveness by spreading administrative costs across a wider population. Though the Company could shut down programs when they reach one hundred percent (100%) of budget, such an approach would cause confusion in the marketplace, stall participation, and decrease overall cost effectiveness.

The increased level of spending above budgeted incentives is not new. As an example, the ThermWise[®] programs had forecasted 58,334 incentives to be paid in the 2009 program year. The projected overall TRC and Utility Cost Test (UCT) results for the programs in 2009 were 1.8 and 2.4 respectively. The actual incentives paid in 2009 totaled

144,166, an increase of one hundred forty-seven percent (147%). The major driver of this increase in participation was the Weatherization program and specifically insulation measures. The increased participation had a positive effect on the overall cost effectiveness of the 2009 ThermWise® programs. The TRC results increased to 2.2 and the UCT to 2.9. During 2009, Weatherization Program administrative costs decreased as a percentage share from thirteen percent (13%) in the budget to eight percent (8%) in terms of actual spending.

The Office's Memorandum also suggests that the Company's claim of increased decatherm savings could be used in the future to justify a "blank check" budget request. The Company disagrees. The Company has only requested additional funds in order to pay for incentives. Even though participation levels have increased, administrative costs are expected to be at or below Commission approved budget levels. If spending trends for the first half of 2013 were to be applied to the entire program year, administrative costs would end the year at seventy-four percent (74%) of budget. The Company's prudent management of program dollars is an essential component to the success of this and other ThermWise® programs.

B. Marketing Expense

Section 2 of the Office's Memorandum (*Office Concerns about Marketing Expenses*) pointed to increased Weatherization Program participation as an indicator that customers are "generally well informed as to the availability and benefits of this program." The Office argues that due to an increased level of participation, additional marketing expenditures may not be necessary.

From the beginning of the ThermWise® programs, the Company has maintained a very conservative strategy regarding the marketing efforts related to the Weatherization

Program. As such, between 2007 and the end of 2012 the Company has spent a total of \$10,036 on Weatherization-Program-specific marketing. Historically, the Weatherization marketing strategy has been to promote the program through the marketing efforts of independent contractors and not through ThermWise® dollars.

As the Company prepared to file the 2013 program budget for approval, the marketing strategy shifted slightly due to evidence of decreasing participation in the Weatherization Program. The Company believed that the “low hanging fruit” had been picked and that direct marketing dollars were needed to encourage participation and continue the success of the program. Therefore, in discussion with program stakeholders and with the Commission’s approval of the 2013 program filing, the Company budgeted \$115,000 for direct marketing of the Weatherization Program. Through vigilant monitoring, the Company recognized early in 2013 that participation in the Weatherization Program had in fact increased due to additional marketing efforts of insulation contractors. As a result, the Company has not spent, nor does it foresee spending, any of the approved \$115,000 Weatherization marketing budget dollars in 2013.

Regarding the Weatherization program, the Company agrees with the Office that customers are generally well informed about the availability of Weatherization incentives. In addition, the Company believes that Weatherization Program marketing dollars will not be necessary for the remainder of the 2013 program year. The Company will continue to monitor and prudently manage marketing expenditures for the remaining ThermWise® programs as well as for the Market Transformation initiative.

C. Budget Proces

As part of the reporting process, the Company is required to timely notify all stakeholders of certain milestones that have been meet regarding program spending for the

current year. In addition, the Company is required to meet regularly with the DSM Advisory Group to discuss program performance, obtain guidance on the direction of the program, and report to the Advisory Group the outcome of decisions made.

In accordance with reporting requirements, the Company filed a fifty percent (50%) of budget letter as of April 30, 2013 for the Weatherization Program on June 24, 2013. In the letter, the Company forecasted that if the four month (Jan.-Apr. 2013) trend continued, Weatherization spending could reach as high as two hundred percent (200%) of the 2013 Weatherization budget. The Company further provided historical quarterly Weatherization participation rates, which stated:

“An analysis of historical participation results (2008-2012) shows that the first quarter has typically accounted for twenty-six percent (26%) of yearly weatherization rebates, the second quarter thirty-two percent (32%), the third quarter twenty-five percent (25%), and the fourth quarter seventeen percent (17%). If the historical participation percentages were to hold true and 2013 participation trends were to continue through the remainder of the year, total Weatherization program spending could reach as high as \$16.4 million or nearly two hundred percent (200%) of budget.”

In Section 3 of its Memorandum (*Office Comments on Budget Process*), the Office concludes that “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.” The Company believes that from the information provided in the June 24, 2013 report, the Parties could reasonably conclude that the ninety percent (90%) threshold would have been met/surpassed during the second quarter, and could have offered comment at that time. The Company agrees with the Commission-approved reporting and meeting requirements, believes that it is compliant with those requirements, and does not feel that additional reporting requirements are necessary.

Also in Section 3, the Office suggested that the Company “work with the DSM Advisory Committee to determine the reasons that their original budget projections were so far below actual and projected participation.”

An analysis from the 2011 program year and results from three quarters of 2012 led the Company to conclude that participation in attic insulation measures would trend downward in 2013. In 2011, the actual participation in attic insulation measures totaled \$5.4 million, or fifty-eight percent (58%) of total Weatherization incentives. In 2012 (prior to the October 17, 2012 filing of the 2013 ThermWise® budget) participation in attic insulation measures totaled \$4.72 million, or seventy-one percent (71%) of total Weatherization incentives. Based on these numbers and other information available at the time of the 2013 ThermWise® budget filing, the Company projected \$5.40 million for attic insulation incentives^[M01].

Two primary factors have caused the actual 2013 Weatherization participation to exceed the 2013 forecast. First, a high volume attic insulation contractor left Utah in 2011. This departure decreased the overall participation in the attic insulation measures for the majority of the 2012 program year. This same contractor returned to Utah in late 2012. Through the first quarter of 2013, this contractor accounted for thirty-five percent (35%) of attic insulation measure volume.

Second, the Company has seen increased marketing pressure by insulation contractors. There is a shrinking pool of eligible homes that have yet to participate in the weatherization program and insulation contractors have been more aggressive in their marketing. These marketing activities could increase attic insulation participation rates in the near future, making forecasting difficult in future program years.

D. Amortization

Amortization of ThermWise[®] program expenditures is the tool used to reimburse the Company or the customers for program expenditures. The amortization rate is based on several factors: 1) the current accumulated dollar amount in the amortization account, 2) the forecasted program spending, and 3) the time required to achieve a certain account balance objective, as agreed to by the DSM Advisory Group. This rate must also be approved by the Commission prior to implementation.

The Company filed on September 2, 2013 (Docket No. 13-057-09) to change the DSM account amortization rate from \$0.24982/Dth to \$0.38690/Dth. The proposed DSM amortization rate is below the historical high rate (2011) of \$0.44104/Dth.

The Company's proposed increase in the amortization rate is part of the strategy implemented in response to the Commission's questions in the 2010 DSM amortization filing (Docket No. 10-057-18) concerning the DSM account balance. In addition, the consensus of the DSM Advisory Group (March 9, 2011 meeting) was to reduce the account balance to zero over a three year period. This three year period ends May 1, 2013.

Given the account balance as of July 31, 2013 of \$13.88 million, plus the projected spending for the remainder of 2013 of \$10.65 million, less the current rate of amortization, plus the estimated 2014 program budget of \$26 million, the increased amortization rate is needed to reach with the Advisory Group's goal to reduce the account balance to zero by the end of April 2014. In addition, the requested change will reduce the amount of interest expense charged to the rate payers for financing the ThermWise[®] programs.

It should be noted that this goal can be reached and the overall effect of the Company's September 2, 2013 filings with the Commission (Docket No. 13-057-07, 13-

057-08, 13-057-09, 13-057-10, and 13-057-11) will decrease the typical residential customers' bill by approximately \$10.00 annually.

VII. CONCLUSION

Questar Gas respectfully requests the Commission approve the revised budget levels. The Company will continue to work with the Office and other ThermWise® stakeholders to ensure accurate and timely reporting of program expenditures. In addition, the Company will work to better communicate with the DSM Advisory Group the underlying factors related to higher than forecasted program participation.

Finally, the Company will continue to evaluate the appropriateness of marketing expenditures for the individual programs (consistent with the Weatherization program example cited above) as well as for the overall Market Transformation initiative.

RESPECTFULLY SUBMITTED this 10th day of September, 2013.

QUESTAR GAS COMPANY

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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing letter was served upon the following persons by e-mail on September 10, 2013:

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