
Energy Efficiency Program Proposal

ThermWise[®] Market Transformation

Program Description

Background

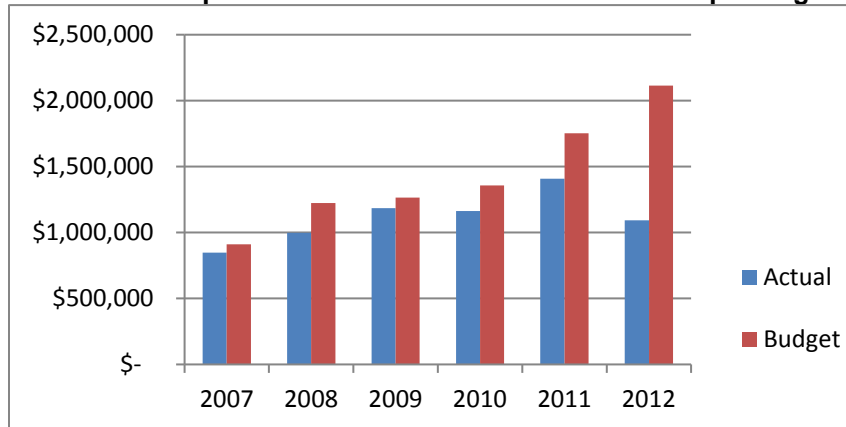
Since the introduction of the ThermWise® Energy Efficiency (EE) programs, Market Transformation has been a consistent and critically important component of Questar Gas Company's (Questar Gas or Company) long-term strategy. "Market Transformation involves promoting ongoing and lasting changes to natural gas appliance penetration rates and new construction markets, as well as natural gas conservation" (Application, Docket No. 05-057-T01, paragraph 21). There are three primary goals that drive the Company's Market Transformation initiative. They are, (1) enhance the Company's involvement in energy efficiency and conservation promotion; (2) change consumer and market participation behaviors; and (3) encourage persistent demand for energy efficiency products and practices. (Application, Docket No. 05-057-T01, paragraph 22). In order to effectively achieve these goals, the Company, proposes an appropriate Market Transformation budget each year and prudently uses those funds throughout each program year. The budget funds activities, events, partnerships, sponsorships, and other supporting components, which contribute to the overall achievement of these three goals. The central purpose of this Exhibit is to provide information regarding the Company's proposed 2014 Market Transformation budget, along with a supporting analysis and summary of why the proposed budget is vital to the success of the ThermWise® portfolio of programs.

First, the Company will provide a summary of the history of its Market Transformation budget, from 2007-2013. The Company will summarize proposed-versus-actual Market Transformation spending. The Company will then show how the ThermWise® Programs measure up to others in the industry. Then the Company will outline and detail the 2014 Market Transformation campaign components. Finally, the Company will discuss its 2013 Market Transformation strategy and 2014 plans based customer survey results.

Market Transformation Budget History

Table 1 is a summary of proposed versus actual Market Transformation spending from 2007-2012. The Company has been selective in its spending, choosing projects with the greatest return and high program exposure. The Company has been diligent in its efforts to secure event and promotional contracts at low rates. These efforts have paid off and spending has historically come in lower than budgeted spending (see Table 1). Additionally, the Company has historically built flexibility into the budget in order to be responsive to unanticipated Market Transformation opportunities that will maximize program exposure. These unanticipated opportunities contribute to variances between projected and actual spending.

Table 1. Proposed vs. Actual Market Transformation Spending

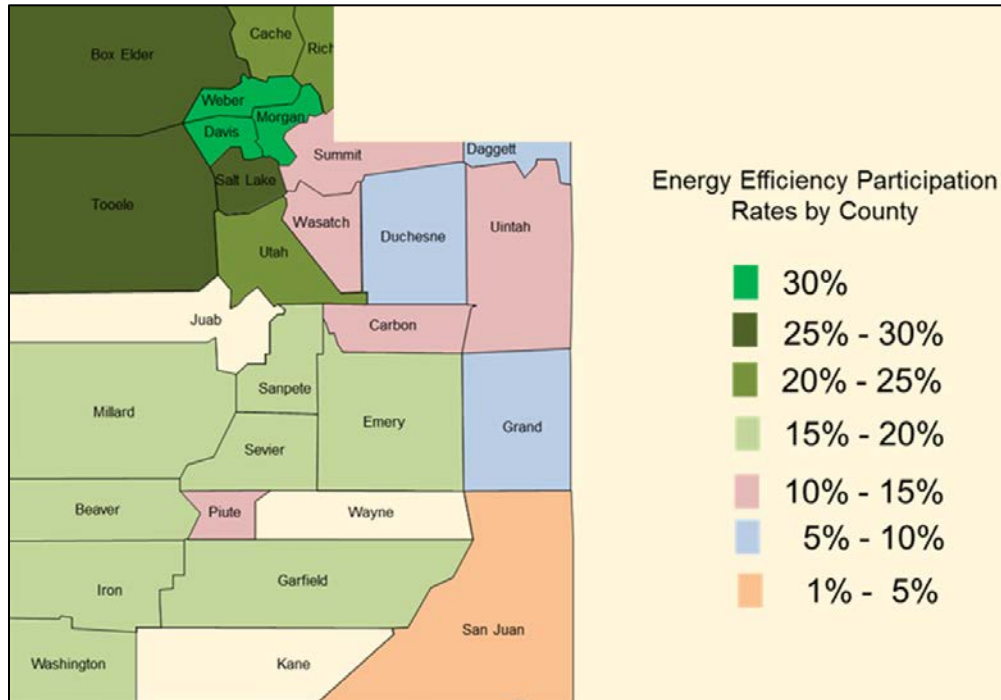


Although there are other contributing factors such as rebate amounts, availability of tax credits, and government incentives, there appears to be a correlation between Market Transformation spending and overall participation in the ThermWise® programs from 2007-2010. When the Company filed for its 2011 Market Transformation budget it was aware of potential changes in government funded programs, as well as other changes that could negatively impact participation. In anticipation of these potential changes and in an effort to sustain participation levels, the Company increased its Market Transformation budget. However, a combination of changes outside of the Company's control still resulted in a decrease in overall participation levels in 2011 and 2012. First, beginning May 1, 2010 the Utah State Energy Program began administering \$2.3 million in the American Recovery and Reinvestment Act (ARRA) rebate funds for the Cash for Appliances Utah Program. All of these funds had been exhausted by November 2010. With the lack of additional funding, participation went down. Next, many customers who combined ThermWise® rebates with rebates offered by other utilities, such as Rocky Mountain Power and Provo City Power, experienced decreases in rebate amounts offered from other utilities. This resulted in a lower combined rebate amount and thereby decreased participation. Also, in previous program years, a federal tax credit equal to 30% of the total project cost was reduced to 10% of the total project cost on December 31, 2010. Lastly, due to the elimination of ARRA funds, decreased rebate amounts and lower tax credits, many of the Company's highest volume ThermWise® Authorized Contractors left the state to pursue opportunities in other states.

Historically, as Market Transformation spending has increased, levels of participation have also increased. A decrease in Market Transformation spending is likely to negatively impact future participation.

Participation throughout the Company's service territory has been substantial further evidence of effective utilization of Market Transformation funds. Table 2 shows unique participants and penetration levels by county:

Table 2. Unique ThermWise® Participants and Levels of Penetration



A further testament to the rapid achievement of these goals can be seen in the adoption of energy efficiency equipment and technologies that were previously categorized as “new and emerging” technologies, but are now required by code or have become standard in the Company’s Utah service territory. Specifically, natural gas clothes dryers with moisture sensors have become standard and high-efficiency clothes washers continue to see similar advancements in efficiency, resulting in higher adoption rates by customers. Additionally, high-efficiency natural gas furnaces and storage water heaters are becoming more readily available in the marketplace.

There have also been improvements in the construction industry related to higher standard building codes. Based on these historical results and findings, the Company believes it is achieving its three primary goals of its Market Transformation initiative.

Energy Efficiency Industry Analysis

Market penetration is defined as unique customer program participants divided by the number of customers eligible to participate in the EE programs. According to the American Gas Association’s (AGA) most recently published study on the natural gas EE industry (2011 report titled “Natural Gas Efficiency Programs Report”), only five of the thirty-six utility survey respondents had achieved 20% or greater market penetration over the life of their EE programs. More importantly, those five utilities that had achieved 20% or greater market penetration, on average, required 14 program years to reach those notable levels. Undoubtedly, well-planned and effective Market Transformation efforts are critical in achieving such above industry average market penetration levels. In just five program years (2007-2011) Questar Gas’ ThermWise® Programs achieved a 24% market penetration rate. What required, on average, 14 program years for other utilities to achieve, Questar Gas was able to achieve in nearly one-third of the time. The Company attributes much of the success of the ThermWise® Programs to its Market Transformation efforts.

In addition to providing industry-wide market penetration information, the AGA also provided statistics comparing total budget to marketing budget. According to the AGA, in 2011 the percentage of total U.S. natural gas energy efficiency program actual expenditures for marketing expenses was on average 4.4% of total budget. In 2011 the Company’s Market Transformation expenditures were 4.47% of total ThermWise® Spending.

Table 3, which was included in the AGA's 2011 report, summarizes the surveyed utilities perception on the effectiveness of different types of marketing approaches (1 being the most effective), as well as the percentage of those utilities using the respective approaches.

Table 3. Success of Marketing Approaches and Target Audience

Success of Marketing Approaches and Target Audience		
<i>Marketing to End Users</i>		
Marketing Approach	Effectiveness	Percentage of Utility Programs Using Approach
Collateral Materials	1	96%
TV / Cable	2	90%
Print Ads	3	99%
Direct Outreach	4	86%
Training	5	41%
Trade & Home Shows	6	92%
Radio Ads	7	96%
Press Releases	8	93%
Internet	9	92%
Other	10	92%

2014 Campaign Components

The Company will leverage similar campaign components in 2014 to continue the momentum that has built over years past. The proposed 2014 campaign will target English and Spanish speaking customers throughout the Company's Utah service territory. Builders, installers, dealers and businesses will also be targeted and trained in effort to make energy efficient equipment and building standards more prevalent in the market.

The Company will continue to utilize "Therm the energy wise guy" as the spokesperson of the campaign. Therm has been the Company's spokesperson since the beginning of the program and Therm is widely recognized by the Company's customers as an expert and advocate in energy efficiency.

In effort to change consumer and market behaviors, encourage demand for energy efficient products and practices, the primary proposed objectives of 2014 are to continue to educate Questar Gas customers on ways to reduce their natural gas usage and save money, including building a greater awareness and demand for home energy plans. The campaign will also focus on encouraging customers to invest in high efficiency appliances and other home improvements to conserve natural gas, and to receive cash rebates. As part of this effort, the Company will utilize ThermWise.com to provide greater opportunities for customers to engage with the brand and participate in the ThermWise® rebate programs

Advertising and Media: \$725,000

Contracted Agency Work

The Company has worked closely with two professional advertising and media partners (Faktory Inc. (Faktory) and R&R Partners (R&R)) to develop an effective working strategy for promoting energy conservation with customers through strategic marketing tactics. The Company's partnership with these agencies has been and

will continue to be beneficial, as they are proven experts in creating and purchasing media. In 2013, the Company budgeted \$775,000 for these costs. The Company proposes to spend \$725,000 in 2014.

Historical advertising campaigns have been designed to reach the Company's customers throughout multiple media outlets. These outlets have included television, radio, online, outdoor, print, and bill inserts.

In-House Ad Management and Contracts

The Company proposes renewing the advertising contracts with Faktory and R&R to ensure the achievement of its Market Transformation initiative goals and maximize Therm's public exposure through community relations efforts, including sporting and media events, theaters, schools, and camps.

Sports Marketing and Promotions: \$450,000

In 2013, the Company budgeted \$450,000 for these Market Transformation components. The Company proposes the same budget level, \$450,000, for 2014.

Larry H. Miller Entertainment

The Company proposes continuing the partnership with Larry H. Miller Entertainment with a package similar to the 2013 package. The Larry H. Miller Entertainment assets extend the Company's Market Transformation efforts to a variety of customer segments through appearances on over 200 movie screens prior to movies; NBA televised game commercials; arena marketing, including the ThermWise® blimp during NBA games; online placement on Larry H. Miller websites; K-JZZ High School game of the week broadcasts; Bees' Games including promoting efficiency to 10,000 5th graders; and permanent signage in the Bees stadium.

Major University Sponsorships

The Company proposes continuing its partnerships with Utah State University, University of Utah, and Brigham Young University. The ThermWise® "Therm-o-stats" continue to be a popular feature at university sporting events. In addition, conservation tips and "Did you know" messages appear throughout the events, along with announcements and commercials which promote energy efficiency and direct sports fans to ThermWise.com.

Real Salt Lake Soccer

The Company proposes to continue its partnership with Real Salt Lake (RSL) in sponsoring its youth soccer camps. RSL promotes its soccer camps through both Spanish and English media outlets, allowing the Company to reach a more diverse group of its customers. This is done through a fully integrated marketing program that RSL promotes through in-stadium announcements and electronic signage; radio (Spanish and English); online placement on RSL's website; television advertising; billboards; print media; and mailers.

2014 ThermWise® Energy Comparison Report: \$200,000

In 2010 Questar Gas researched similar programs and investigated third party behavior based energy efficiency programs operating throughout the United States. These reports consist of usage-analysis to residential customers. Additionally, Questar Gas investigated behaviorally driven reports throughout the United States, and engaged in conversations with possible vendors. Ultimately, Questar Gas decided to pursue program development internally, resulting in the creation of the ThermWise® Energy Comparison Report. The Company proposes the continued funding and development of the ThermWise® Energy Comparison Report. The proposed 2014 ThermWise® Energy Comparison Report budget of \$200,000 is a \$100,000 reduction from the 2013 budget.

The ThermWise® Energy Comparison Report includes a series of four graphical illustrations that show how a customer's usage compares to roughly 100 similarly sized residences situated nearby.

The ThermWise® Energy Comparison Report is intended to influence customers' behavior, lifestyle, appliance purchases, shell measures, find hard-to-reach savings, and to improve customer satisfaction by providing useful information, increasing comfort and reducing bills. The Company presented the ThermWise® Energy Comparison Report to the DSM Advisory Group on May 24, 2011.

Questar Gas has a three part strategy for advancing this report: a pull strategy, a push strategy, and an opt-in strategy. The Company launched pull strategy for the ThermWise® Energy Comparison Report on July 25, 2011 through the QuestarGas.com web self-service application for all customers that login to their gas usage history. Using 23 months of history as the baseline, roughly 5% of all customers who log into Questar Gas' web self-service, click on to view the ThermWise® Energy Comparison Report.

The Company recognized the reach limitations of a pull strategy. Therefore, beginning in November 2011, Questar Gas initiated a push strategy for the report through a small pilot sent out or "pushed" the report to 8,000 customers located throughout the Company's Utah service territory. Customers were selected at random based on a qualifying basis including attributes such as a gas usage history, and a Company recorded value for square footage. The Company disseminates these reports on a quarterly basis either via email or via postal mail. As of September 2013, these customers have received versions of their ThermWise® Energy Comparison Report nine times. 65,360 reports have been generated. To perform statistical tests and analysis for these customers, Questar Gas created a control group encompassing an additional 8,000 customers, selected based on the same characteristics. The Company intends to run a thorough evaluation of these customers' usage following two years of history.

December 2012 the Company initiated a second pilot targeted to the Company's highest users, those who would arguably benefit the most from measure participation. The Company identified 23,5251 customers and sent them the report in December 2012. This group of customers has since received five more reports for a total of 107,347 reports generated. Though the Company's preliminary analyses shows positive behavioral changes, Questar Gas will run a more thorough evaluation at a later date.

In September 2013, the Company continued its push strategy by expanding the report to an additional 100,000 higher usage customers. The Company will continue to send this report out to those customers at regular intervals with a predominant focus on the five winter months. This expansion will lead to over 20% of system wide residential customers being impacted by the expansion, with over 15% of residential customers receiving the report.

Additionally, Questar Gas believes that some of its customers would be interested in receiving the report's contents on a monthly basis. Therefore, Questar Gas began the development of an opt-in program, to allow customers to self-select and subscribe to receive the program on a monthly basis. Questar Gas initially promoted the Opt-In Program in conjunction with a presentation by Therm on local NBC network television program Studio 5 on November 6, 2012, and on November 12, 2012 on local ABC affiliate program Good Things Utah². Questar Gas began the active promotion for the participation to receive the report on a monthly basis. These two links provide the contents of Therm's presentation.



¹ Over time, this number decreases because customers move, an account becomes inactive, or email accounts are closed.

² These appearances were available because of the media purchases mentioned earlier in this Exhibit.

³ <http://studio5.ksl.com/?nid=124&sid=22856982>



The Company began sending out reports in November 2012. To date, more than 1,100 customers have opted in and receive the ThermWise® Energy Comparison Report on a monthly basis.

The Company has dedicated resources and budget dollars to make the program more widely available for a larger number of customers. To accommodate the desire to reach the most customers, Questar Gas has engaged in substantial report improvements during the 2013 year. This involved improved comparison characteristics including an additional metric (year built), better report tracking, and an enhanced web portal that includes appliance data, and avoids conflicts with control group members (Control group members are now unable to view the report online).

Contingent upon program success, in 2014, the Company plans to continue the report's reach as additional history becomes available. Moreover, the Company is looking at a potential final roll out to an additional 250,000 customers during the fourth quarter 2014. The Company will also engage in additional plans for the program in 2014 including more customer outreach, program persistence testing, and pushing reports to more customers including more high-use customers.

Table 4 describes the current and future plans and customers involved in the report. Customers named "Control" are considered to be those who are not receiving the report to be compared statistically against the recipients.

Table 4. ThermWise® Energy Comparison Report Current and Future Plans

Description	Recipients	Control
Group A (Initial Pilot - Nov 2011 Launch)	8,000	8,000
Group B (High Usage Dec 2012)	25,000	25,000
Monthly (Opt-In as of September 2013)	1,116	
Group C (Roll-Out)	100,000	10,000
Roll-Out	250,000	15,000
Total	383,989	58,000

In Questar Gas' 2014 Budget Filing the Company proposes to maintain costs associated with the Energy Comparison Report in the Market Transformation Budget. The Company will continue analyzing program effectiveness and may move those costs into a stand-alone program at a later date. Moreover, the Company is cognizant that the benefits of the Energy Comparison Report include not only energy savings, but other benefits, such as enhanced participation in other ThermWise® Rebate Programs. Behavioral changes can take time to emerge, but the Company will continue to evaluate the success of the program. Questar Gas budgeted \$300,000 for the development and advancement of the report in 2013. The Company proposes a budget of \$200,000 for this program in 2014.

⁴ http://www.abc4.com/content/about_4/gtu/featured_on/story/Cut-Back-on-Your-Energy-Bill/yoES-jzYuUugrrx2VM3PA.csp

2014 Special Marketing Events, Trade/Consumer Shows, Special Events Sponsorships: \$135,000

The Company, in coordination with its current administrative partners, will focus on marketing work which includes marketing strategy, customer surveys, collateral design and delivery, development, printing and distribution, trade and consumer shows, and events sponsorship opportunities. The proposed \$135,000 2014 Special Marketing Events, Trade/Consumer Shows, Special Events budget is a \$165,000 reduction from the 2013 budget. This work will focus on targeting increased customer participation and will include a consistent style and messaging across the programs.

Events and Promotions.

The Company will continue marketing the ThermWise® programs through local events and promotions such as spring and fall home shows, local fairs, and other community events. This allows the Company to have direct contact with its customers, distribute marketing collateral, answer questions, and provide useful and accurate information in regards to its energy efficiency programs. In addition, many of these events allow “Therm” to interact with the Company’s customers and further promote energy efficiency awareness and participation. Table 5 represents a list of 2013 marketing events through October 2013. The Company anticipates similar marketing events in 2014.

ThermWise® Marketing Events Table 5. 2013

2013 Marketing Events
American Petroleum Institute Event (Vernal)
Autoliv Earth Day Event
Chambers West Event
Children’s Justice Center Event (Vernal)
Commercial Customer Meeting
Days of 47 Rodeo
Delta Airlines Safety Fair
Deseret News Fall Home Show
DOE Challenge Home Workshop
Dream Home Event
Good Things Utah
Governors Energy Conference
Hill AFB Event
Hogle Zoo Earth Day Event
Home Depot Emergency Fair
HVAC/Weatherization Round Table
L3 Greenday Event
Millcreek Event
Johnstone Customer Appreciation day
Pleasant Grove Safety Fair
Presentation on ThermWise® to SLCC
Provo Home Show
Questar Fitquest Kickoff

Questar Safety Fair
Riverton Emergency Prep Fair
Salt Lake Chambers Women's in Business
Salt Lake Tribune Home and Garden Show
Sandy City Emergency Prep Fair
Springville ThermWise® Presentation
Sugarhouse Emergency Prep Fair
Therm at Bees Game/1st Pitch
U of U Energy Ambassador Training
UMA Event
Utah Apartment Association
Utah State Fair
West Valley Event

Program Design and Contractor Specific Marketing

Throughout the history of the ThermWise® programs, the Company has contracted with firms that have expertise in the administration of energy efficiency programs. These firms play an important role in the design of the Company's ThermWise® programs by identifying opportunities and removing economic barriers, which allows for more effective Market Transformation. These partnerships will continue through 2014. Questar Gas budgeted \$300,000 for these activities in 2013. Questar Gas proposes a budget of \$135,000 for 2014.

2014 Quester Gas Management and Administration: \$69,000

The Company will continue its membership in energy efficiency industry associations (Consortium for Energy Efficiency, Association of Energy Services Professionals, American Counsel for an Energy Efficient Economy, Southwest Energy Efficiency Project, etc.) through its program managers to further advance natural gas energy efficiency and conservation in the Utah market. Questar Gas budgeted \$73,513 for these purposes in 2013. Questar Gas proposes a reduced budget of \$69,000 for 2014.

State of Utah Codes Training: \$50,000

The Company proposes the continuation of the funding for codes training in effort to increase building standards and quality throughout its service territory. In 2013, Questar Gas proposed a budget of \$50,000. The Company proposes a budget of \$50,000 for 2014.

SLCC Energy Management Program: \$13,300

The Company proposes the continuation of the sponsorship donation to Salt Lake Community College Energy Management Program. The sponsorship ensures that students interested in energy efficiency are able to receive specialized training and join the workforce in areas of energy efficiency. The Company proposed a budget of \$13,300 for 2013. The Company proposes a budget of \$13,300 for 2014.

2014 Program Design: \$10,000

The costs associated with the program design budget are related to potential updates to programs from program year to program year. The 2014 Program Design budget is a \$20,000 reduction from the 2013 budget of \$30,000. Updates may include the addition or removal of energy efficiency measures, re-working of incentive levels, and re-calculation of savings. As with every component of the Company's Market Transformation budget, these funds are used prudently.

Conclusion

It is important to note that the Company includes Market Transformation costs in the ThermWise® cost effectiveness model. The Company believes this most accurately reflects the true costs to run energy efficiency programs such as the ThermWise® programs. Including all energy efficiency expenditures in cost effectiveness modeling ensures prudent use of customer dollars. The Company proposes the continued funding of the Market Transformation budget. This will allow the Company to achieve the three primary goals that drive the Company's Market Transformation initiative. The Company believes that the Market Transformation initiative is critical to the ongoing success of the ThermWise® Energy Efficiency portfolio.