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# Energy Efficiency Program Proposal

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ThermWise<sup>®</sup> Market Transformation

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# 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 2017 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.

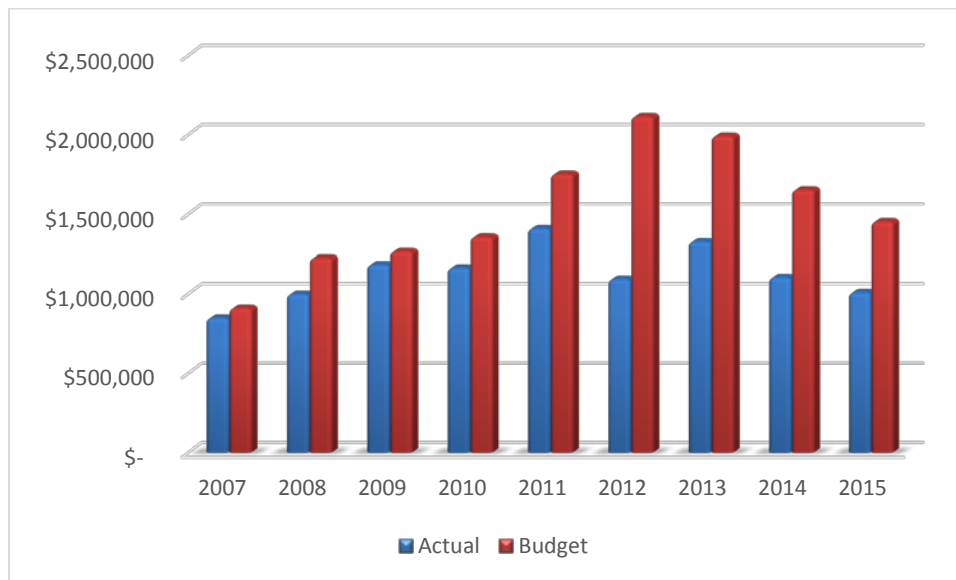
In this section, the Company will provide

- A historical summary of its Market Transformation budget, from 2007-2015
- A summary of proposed-versus-actual Market Transformation spending
- Benchmark the ThermWise Programs to its peers in the natural gas energy efficiency industry
- Summary of the 2016 Lighthouse Survey
- Outline and detail the 2017 Market Transformation campaign components, strategy, and plans

## Market Transformation Budget History

Table 1 is a summary of proposed versus actual Market Transformation spending from 2007-2015. 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. The Company regularly seeks out and takes advantage of low to no-cost events. In many cases the Company is able to leverage its existing marketing channels in return for a waiver of the participation fees at community events. These efforts have proven effective as historical Market Transformation spending has always come in lower than budget (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**

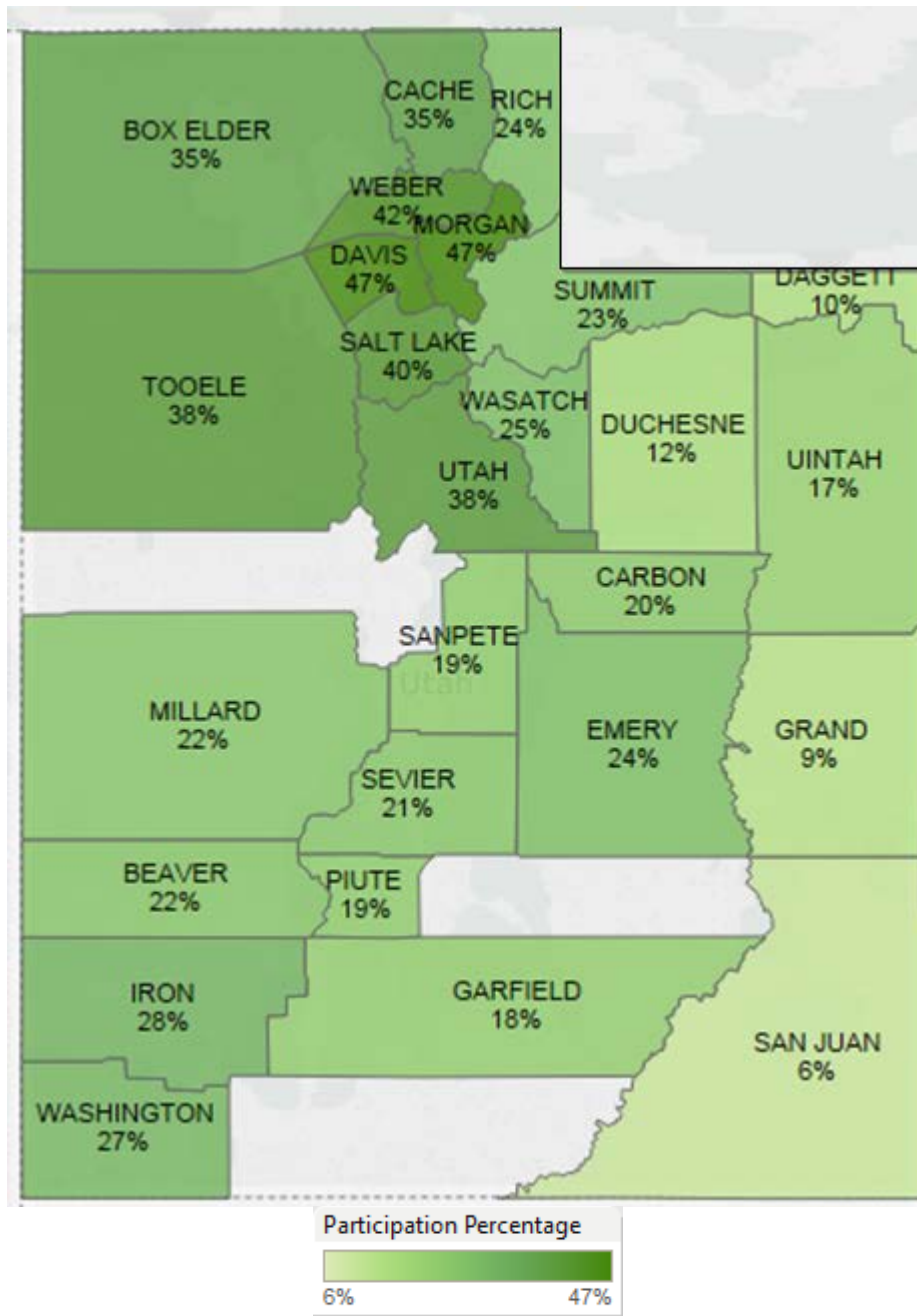


Although there are other contributing factors such as rebate amounts, availability of tax credits, and government incentives, there appears to be a correlation between Market Transformation spending and overall participation in the ThermWise programs from 2007-2010. When the Company filed for its 2011 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. In response, in 2013 the Company increased its market transformation efforts in order to positively impact participation. As a result, the Company saw a substantial increase in participation in 2013. In 2014 and 2015 the Company prudently used market transformation dollars and was able to come in significantly under its originally proposed budget. This was primarily due to lower than projected marketing expenses and the Company's ongoing efforts to secure event and promotional contracts at low rates.

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. Table 2 shows unique participants and penetration levels by county:

**Table 2. As of June 2016 Unique ThermWise Participants and Levels of Penetration**



As illustrated by Table 2, the Company continues to see a steady increase in unique ThermWise participants throughout its service territory. The Company is pleased with the trend in participation and market penetration and expects to see similar trends throughout 2016 and 2017 as a result of its market transformation efforts.

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, clothes washers, natural gas dryers with moisture sensors, 0.30 U-Factor windows, and 0.62 EF storage water heaters have all become standard. Additionally, high-efficiency natural gas furnaces and storage water heaters continue to become more readily available in the marketplace.

Improvements in the construction industry related to higher standard building codes are ongoing. 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

In past years the Company has benchmarked market transformation efforts with other programs across the nation using the results of the American Gas Association (AGA) annual energy efficiency report. Below is the Company’s analysis from the most recently available AGA survey (2014).

AGA’s 2014 report shows a state by state comparison of incentive to non-incentive costs. The report shows that on average, states spent 36% of total program expenditures on non-incentive related costs. By comparison, during the same time frame, the Company spent 21.6% of its total program expenditures on non-incentive related costs. When comparing the top 22 participating programs (programs with total expenditures exceeding \$10,000,000), the Company ranks 3rd overall in least amount of non-incentive related spending as a percentage of total program expenditures at 21.6%. The Company continues to be a national top performer in this metric.

Table 3 summarizes the overall percentage mix for each participating state with total annual expenditures of at least \$10,000,000.

**Table 3. Percentage of Total Expenditures spent on Non-Incentive Costs ranked by State**

Rank	State	2014 Total Expenditures	2014 Marketing/Admin	2014 EMV/Research Studies	2014 Other Costs	2014 Total Non-Incentive Costs	% of Total
1	New Jersey	\$ 110,995,885.00	\$ 15,891,754.00	\$ 1,277,274.00	\$ 54,000.00	\$ 17,223,028.00	15.5%
2	Rhode Island	\$ 20,186,998.00	\$ 3,680,811.00	\$ 153,392.00	\$ 370,899.00	\$ 4,205,102.00	20.8%
3	Utah	\$ 26,293,424.00	\$ 5,687,949.00	\$ -	\$ -	\$ 5,687,949.00	21.6%
4	Connecticut	\$ 43,495,333.00	\$ 6,074,138.00	\$ 493,778.00	\$ 3,024,232.00	\$ 9,592,148.00	22.1%
5	Massachusetts	\$ 171,720,886.00	\$ 42,314,888.00	\$ 4,653,826.00	\$ 1,333,134.00	\$ 48,301,848.00	28.1%
6	Florida	\$ 21,797,666.00	\$ 6,139,818.00	\$ 20,229.00	\$ -	\$ 6,160,047.00	28.3%
7	Oklahoma	\$ 12,938,977.00	\$ 1,360,799.00	\$ 107,517.00	\$ 2,396,861.00	\$ 3,865,177.00	29.9%
8	New York	\$ 118,431,912.00	\$ 34,737,529.00	\$ 2,141,888.00	\$ 2,386,626.00	\$ 39,266,043.00	33.2%
9	Washington	\$ 19,208,825.00	\$ 5,124,719.00	\$ 542,966.00	\$ 751,294.00	\$ 6,418,979.00	33.4%
10	Iowa	\$ 33,883,838.00	\$ 5,896,242.00	\$ 274,741.00	\$ 6,120,669.00	\$ 12,291,652.00	36.3%
11	Colorado	\$ 15,399,152.00	\$ 3,526,827.00	\$ 915,414.00	\$ 1,866,919.00	\$ 6,309,160.00	41.0%
12	Illinois	\$ 82,852,299.00	\$ 32,272,506.00	\$ 1,901,852.00	\$ 609,280.00	\$ 34,783,638.00	42.0%
13	Wisconsin	\$ 19,123,879.00	\$ 8,163,609.00	\$ 634,460.00	\$ -	\$ 8,798,069.00	46.0%
14	Michigan	\$ 40,626,716.00	\$ 13,833,181.00	\$ 1,450,759.00	\$ 3,768,082.00	\$ 19,052,022.00	46.9%
15	Ohio	\$ 43,055,290.00	\$ 21,353,036.00	\$ 587,690.00	\$ -	\$ 21,940,726.00	51.0%
16	Maryland	\$ 16,380,005.00	\$ 8,288,203.00	\$ 144,652.00	\$ -	\$ 8,432,855.00	51.5%
17	Arkansas	\$ 10,804,720.00	\$ 4,478,503.00	\$ 814,385.00	\$ 294,373.00	\$ 5,587,261.00	51.7%
18	Oregon	\$ 26,411,509.00	\$ 213,335.00	\$ -	\$ 13,840,256.00	\$ 14,053,591.00	53.2%
19	Pennsylvania	\$ 22,779,445.00	\$ 12,535,038.00	\$ 166,700.00	\$ -	\$ 12,701,738.00	55.8%
20	Minnesota	\$ 44,192,519.00	\$ 22,349,305.00	\$ 1,512,913.00	\$ 1,336,986.00	\$ 25,199,204.00	57.0%
21	Indiana	\$ 19,635,221.00	\$ 9,050,475.00	\$ 412,177.00	\$ 1,804,136.00	\$ 11,266,788.00	57.4%
22	California	\$ 311,304,422.00	\$ 254,827,084.00	\$ 4,217,649.00	\$ -	\$ 259,044,733.00	83.2%

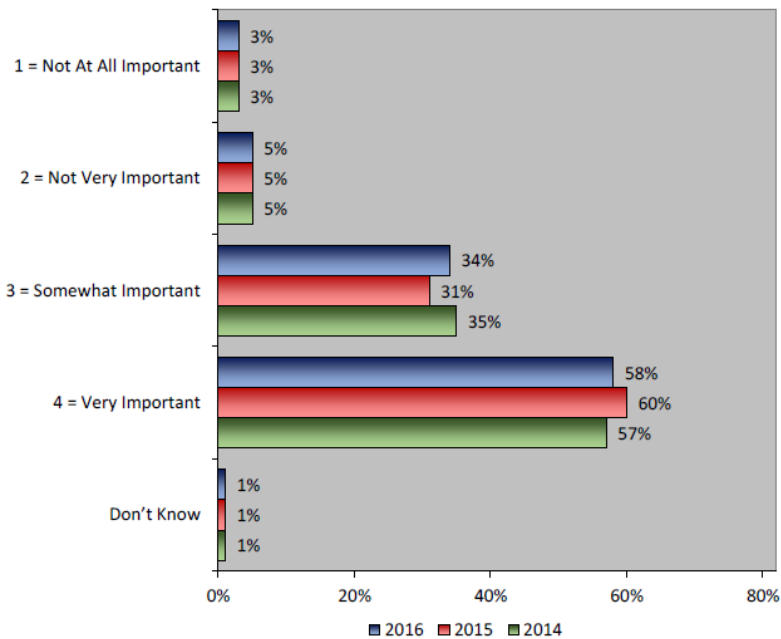
# Lighthouse Survey Results

Lighthouse Research & Development, Inc. was contracted by the Company to conduct a telephone survey with current customers regarding their usage of natural gas and awareness of the conservation programs. A random sample of 707 interviews with survey respondents were completed to ensure a statistical confidence rate of 95% with a  $\pm 3.68\%$  margin of error. The survey was completed by manually dialing customer numbers, enabling Lighthouse to contact cell phones as well as land lines, ensuring the sample included respondents of varying ages and locations across the state. Key facts and findings from the report are included below. The entire survey results and customer responses are available upon request.

## Importance of Energy Efficiency Programs

Customers continue to rate the importance of Energy Efficiency programs very high. When asked how important it is for utility companies to offer customer programs to help conserve energy, 58% stated very important and another 34% stated somewhat important as shown in the chart below.

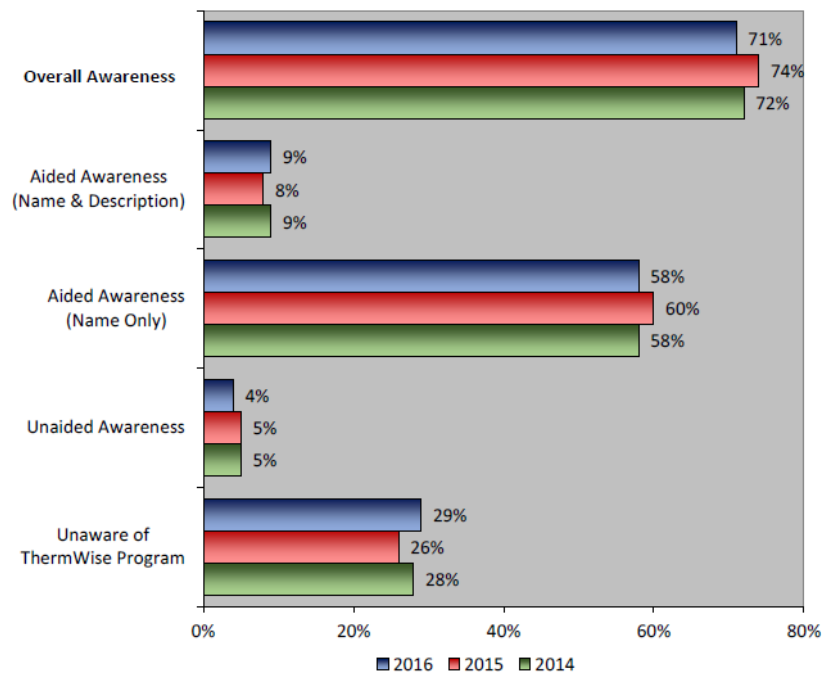
**Table 4. How important is it for utility companies to offer customers programs to help conserve energy?**



## Awareness of Energy Efficiency Programs

Overall awareness of the ThermWise program did not have a significant change in 2016. Customers were asked to identify programs offered by utility companies to help save energy. Before customers were read a description of the program and told who the sponsor was, only 29% of customers were unaware of the ThermWise program. Overall awareness of the program did not change significantly and is at 71% as shown below in Table 5.

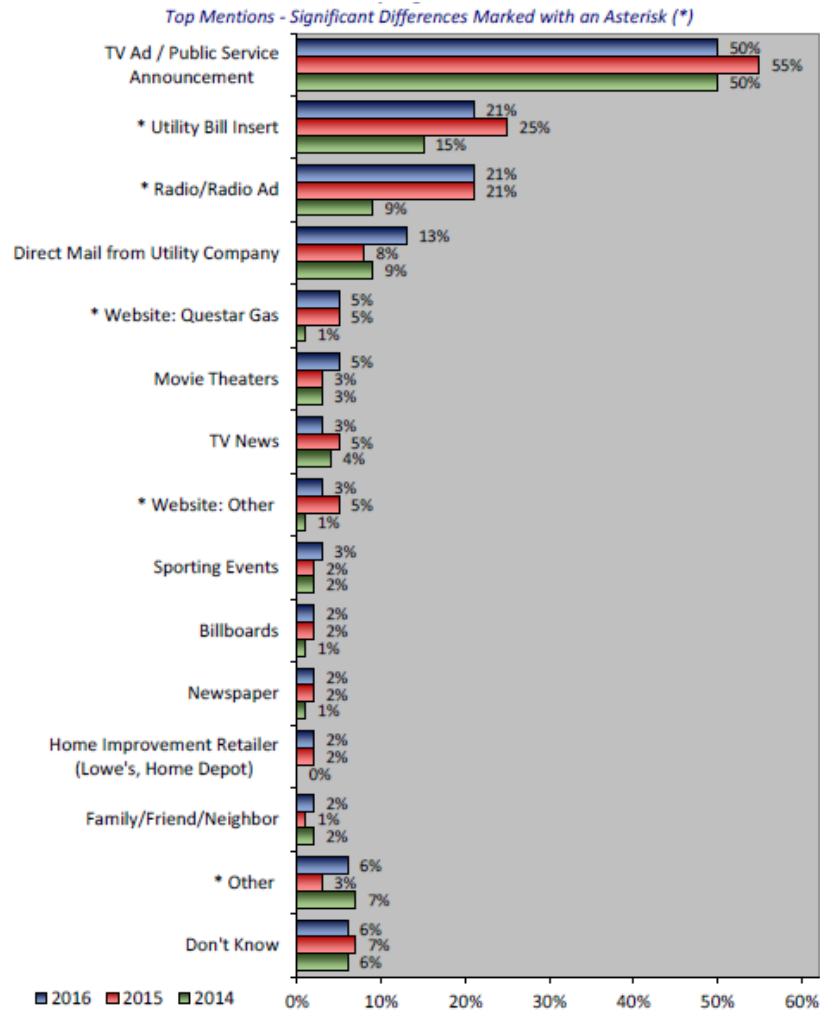
**Table 5. Overall awareness of Energy Efficiency programs**



## Where do customers hear about ThermWise

When customers were asked (unaided) where they first heard about the ThermWise programs, 50% of respondents who were aware indicated they first heard about the programs on television, 21% stated the utility bill insert, 21% stated radio, and 13% stated direct mail from the Utility.

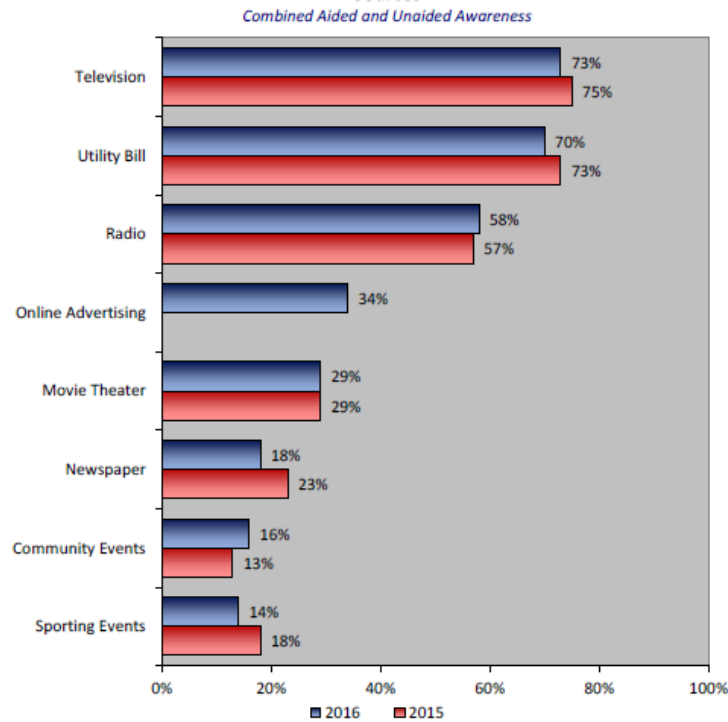
**Table 6. Where did you first see or hear about Questar Gas's ThermWise Programs?**



The following question was added in the 2015 survey in response to discussion in the Advisory Group meeting and in effort to fully understand the effectiveness of the various media outlets. The 2016 survey included a follow up question to find out all of the media outlets customers are seeing the ThermWise advertising. When asked if they had seen or heard ThermWise advertising in various media sources, 73% of respondents said they had seen such advertising on Television, 70% in their utility bill, while 58% each said they had heard advertising on the radio, 34% had seen online advertising, 29% in movie theaters, 23% in newspaper, 16% at community events and 14% at sporting events. Table 7 shows the combined awareness, unaided and aided, of the ThermWise advertising and media sources.



**Table 7. Have you seen or heard ThermWise advertising through any of the following media sources?**

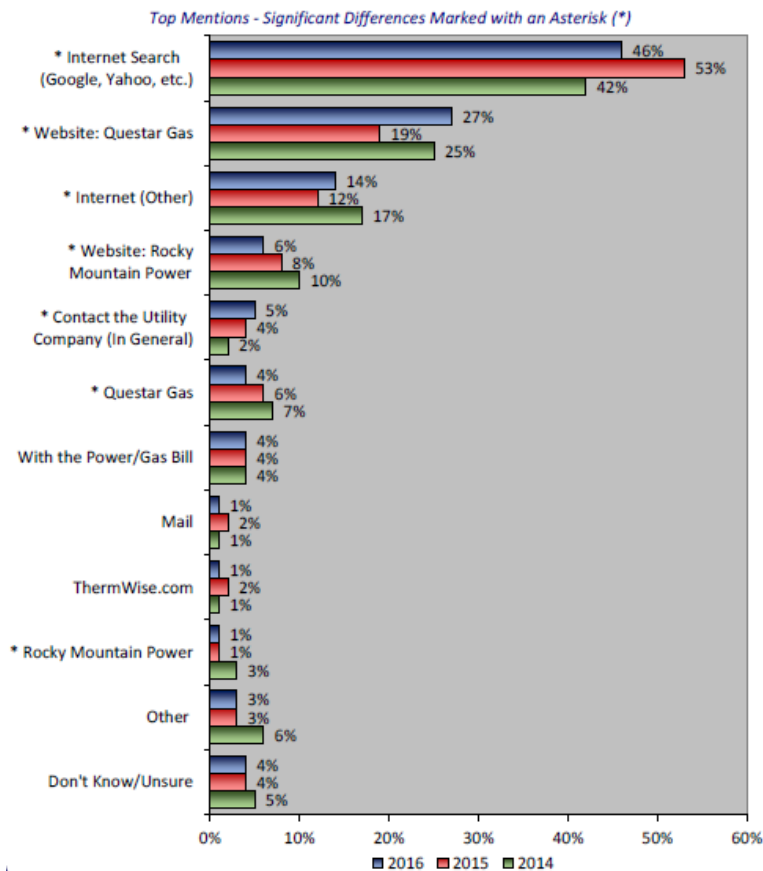


### Where Customers Find Information about ThermWise

When looking for more information regarding energy efficiency and home energy savings rebates, customers overwhelming response was to search various sites on the Internet. 46% of customers stated they would look on Google or Yahoo, 27% would search Questar Gas’s website, 14% would search other Internet sites, and 6% would search Rocky Mountain Power’s website. In effort to be responsive to the survey and customers tendency to search the internet for information about energy efficiency, the Company has utilized search engine optimization, and launched a ThermWise YouTube Channel. The channel was launched in early 2015 and has already had over 430,000 views.

Table 8 shows a comparison of 2014, 2015 and 2016 where customers would look for information if they wanted to know more about energy efficiency and home energy savings, rebates, and/or products.

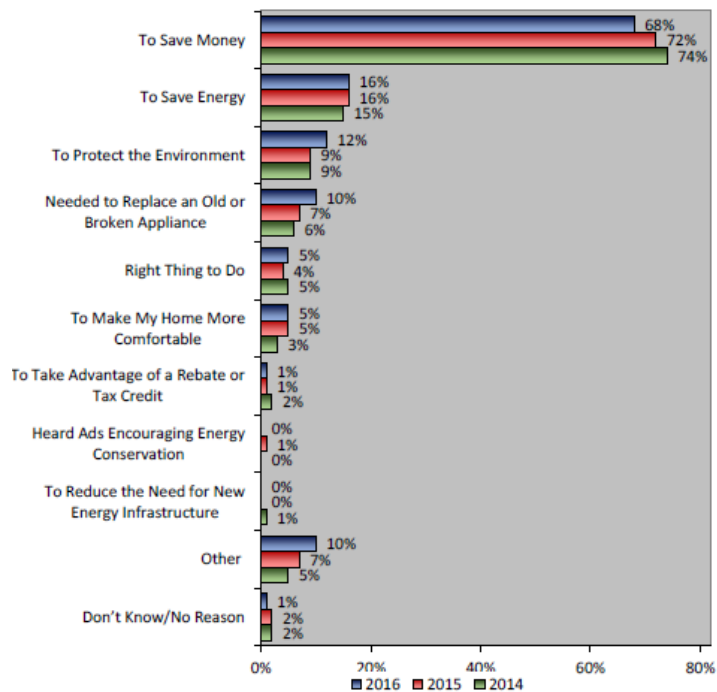
**Table 8. If you wanted to know more about energy efficiency and home energy savings, rebates, and/or products, where would you look for information?**



### Why Customers Participate in ThermWise

When asked why they have taken actions to conserve energy within their homes during the past year, 68% of respondents said they have done so to “save money”, 16% responded to save energy, and 12% stated to protect the environment. See table 9 for more details.

**Table 9. The Main Reasons Customers took steps to conserve energy**



Differences by County

Awareness of the ThermWise programs is higher along the Wasatch front counties. Overall awareness of the ThermWise program is 10-20% lower in the Non-Wasatch Front areas. See Table 10 for more details.

**Table 10. Awareness of the ThermWise Campaign by County**

		Davis County	Salt Lake County	Utah County	Weber County	Non-Wasatch Front
ThermWise	Unaided Awareness	5%	5%	3%	7%	2%
	Aided Awareness (name only)	64%	64%	62%	63%	43%
	Aided Awareness (name & description)	11%	7%	10%	5%	11%
	<b>Overall Awareness (unaided &amp; aided)</b>	<b>80%</b>	<b>76%</b>	<b>74%</b>	<b>74%</b>	<b>56%</b>

## 2017 Campaign Components

The Company will leverage similar campaign components in 2017 to continue the momentum that has built over years past. This will include utilizing the findings from the Lighthouse Customer Survey by focusing on ways to help customers save money. The proposed 2017 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 2017 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. The Company will continue to target and promote additional measures to customers that have participated in the past as well as new participants. As part of this effort, the Company will utilize online marketing along with 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 2016, the Company budgeted \$725,000 for these costs. The Company proposes the same budget level, \$725,000 in 2017.

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. The 2017 campaign will communicate a similar message to 2016. Faktory will continue to attend the advisory group meeting and provide more details on marketing plans and update items

### 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.

## Marketing Contracts and Promotions: \$425,000

In 2016, the Company budgeted \$450,000 for these Market Transformation components. The Company proposes to reduce the budget level to \$425,000 for 2017. These strategic partnerships allow the Company to promote the ThermWise program at more than 140 live events with total attendance in excess of 2.7 million spectators. They also generate access to broadcast through nearly all of the other major media outlets. These contracts have positive impacts on the Light House survey in a majority of the major categories measured including, television, radio, online, movie theater, newspaper, community events, and sporting events.

## Larry H. Miller Entertainment

The Company proposes continuing the partnership with Larry H. Miller Entertainment. 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; commercials on the 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. Utah has a strong and loyal college sports following, and the response from our customers viewing ThermWise marketing throughout such events has proved beneficial. 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. Given the quick rise of RSL's reputation in Major League Soccer (MLS), its fan base has grown substantially since the Company originally established a partnership with the organization. As a result, the Company has been able to reach a larger audience year over year. 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 in all of their media outlets, including, in-stadium announcements; electronic signage; radio (Spanish and English); online placement on RSL's website; television advertising; billboards; print media; and mailers.

**2017 Special Marketing Events, Trade/Consumer Shows, Special Events Sponsorships: \$80,000**

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. In 2016, the Company budgeted \$100,000. The Company proposes to reduce the budget level to \$80,000 for 2017. This work will continue to 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, energy efficiency conferences, local business conferences, military related events, and other community events. This allows the Company to have direct contact with its customers and local leaders, distribute marketing collateral, answer questions, and provide useful and accurate information in regards to its energy efficiency programs. In effort to increase awareness of the programs outside the Wasatch Front, the company has initiated involvement in more community events outside the Wasatch front, including county fairs and community events in more rural areas. In addition, many of these events allow "Therm" to interact with the Company's customers and further promote energy efficiency awareness and participation. Table 11 is a list of marketing events through October 2016. The Company anticipates similar marketing events in 2017.

### **ThermWise Marketing Events Table 11.**

<b>2016 Marketing Events</b>
Authorized contractor meetings
Autoliv Event
Cache County Fair
Comicon
Deseret News Fall Homeshow
Emergency preparedness fair
Energy Codes Training
Glenwild Community Event
Governors Energy Summit
Habitat for humanity/Georgetown Energy Event
Health, Safety and Wellness Fair
Hill AFB Airshow
Hill AFB Energy Fair
IHC Event
Johnstone Dealer Meeting
Orem Conservation and Safety Community Event
Park City Showcase of Homes
Preparedness in the Park
Resource Rendezvous
Safe Kids Events
Salt Lake Tribune Home and Garden Festival
Skyline Challenge
ThermWise day at the Bees Game
UMA Event with booth
USU Business Week
USU ThermWise Day
Utah Apartments Association Trade Show
Utah Manufacturing Association Event
Varian Medical Employee Event
Water and Energy Nexus
Wells Fargo Energy Fair
Women in Business

**Questar Gas Management and Administration: \$50,000**

The Company proposes to 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. In 2016 the Company budgeted \$70,000. The Company proposes to reduce the budget to \$50,000 for 2017.

## 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. The Company proposes to maintain the same budget level for 2017.

## SLCC Energy Management Program: \$14,000

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. In 2016 the Company budgeted \$14,000. The Company proposes to maintain the same budget level for 2017.

## Program Design: \$10,000

The costs associated with the program design budget are related to potential updates to the ThermWise portfolio of programs. 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. The Company proposes to continue the \$10,000 budget for 2017.

## 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.