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DEPARTMENT OF COMMERCE  
Office of Consumer Services

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To: Public Service Commission

From: Office of Consumer Services  
Michele Beck, Director  
Gavin Mangelson, Utility Analyst

Date: November 30, 2017

Subject: Docket 17-057-22

**In the Matter of:** Dominion Energy Utah's Application for Approval of the 2018 Year Budget for Energy Efficiency Programs and Market Transformation Initiative

## Background

On October 17, 2017 Dominion Energy Utah (Company, Dominion or DEU) filed with the Public Service Commission (Commission) an application with supporting exhibits for the 2018 budget of the Company's Energy Efficiency (EE) programs. The Commission posted a Notice of Filing and Comment Period on November 3, 2017.

## Discussion

The Office of Consumer Services (Office) has analyzed the Company's budget proposal, including the application and exhibits, and the discovery responses provided to the Office<sup>1</sup>. Based on this analysis, we provide the following comments.

### Proposed Budget

The Company is requesting a 2018 EE budget of \$24.5 million (\$24,544,834). This amount is less than the 2017 budget of \$25.1 million (\$25,087,961). The anticipated

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<sup>1</sup> The Office also participates in the Company's Advisory Group, however, meetings of that group are generally oriented as a presentation of information with limited opportunities for feedback and discussion.

total actual expenditure for 2017 is almost \$23.8 million. Therefore, the Company is requesting a 2018 budget that is about \$700,000 higher than the anticipated actual expenditures for 2017. The Office notes that these numbers are budget totals and are the sum of the various individual programs that make up the EE portfolio.

### Program Changes

The proposal for 2018 contains a variety of program and measure adjustments designed to realign measures with market conditions and minimum code requirements, the Office supports these changes. The Office notes that the Company's EE program managers have consistently monitored markets, code requirements, and new technologies in order to effectively adjust incentives and Thermwise programs as needed.

Another notable change pertains to the pilot program which currently operates as part of Thermwise Weatherization, and targets areas identified as having previously low participation in that program. Although this pilot is not overtly a low-income program, neighborhoods and areas underserved by the Thermwise Weatherization program are often characterized by lower income households. The Company is now proposing to have this pilot initiative administered by the International Center for Appropriate and Sustainable Technology (ICAST). According to the Company, ICAST will target both "low-income and market rate properties".<sup>2</sup> The Office recognizes the opportunity for greater efficiency in program management by partnering with ICAST, and supports this proposal.

### Market Transformation (MT)

A description of the Thermwise Market Transformation program (previously titled Market Transformation Initiative) is contained in Exhibit 1.7 of the filing. The proposed 2018 budget for this program is \$1,320,000 and is broken out into six components, these components and their respective budget allocations are as follows:

1. Advertising and Media - \$800,000
2. Marketing Contracts and Promotions (major sponsorships) - \$300,000

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<sup>2</sup> Application paragraph 17, page 8.

3. Special Events and Trade Shows (small event sponsorships) - \$80,000
4. DEU Administration - \$50,000
5. State of Utah Codes Training - \$80,000
6. Program Design - \$10,000

The Office supports the efforts of this program to provide better codes training in the State of Utah. Further, the Office has no objection to the spending amounts allocated to small events and trade shows, program design, and DEU Administration. However, the Office has concerns about the total of \$1,100,000 proposed to be spent on the categories including advertising, media, and major sponsorship promotions.

The Office notes that the proposed \$800,000 allocation for Advertising and Media is a 10.5% increase over the 2017-year allocation. The Company justifies this drastic increase by stating that it is needed as a result of recent inflation of advertising and media costs. The Office does not question whether or not media costs have risen recently, however, the Company does not provide any further evidence that the rise in media costs are commensurate with a 10.5% increase to the media budget. Further, the Company does not provide any evidence that this spending level is necessary or appropriate to achieve the level of forecast savings.

The Office has historically been highly critical of the expenditures towards media and sponsorships<sup>3</sup>. In Docket 15-057-16 the Office detailed several examples demonstrating that spending on media are not sufficiently correlated to participation in Thermwise programs. On page 2 of Exhibit 1.7 the Company discusses changes outside of Company control that result in decreased participation, but still maintains that there “appears to be a correlation between market transformation spending and overall participation.” The Office reemphasizes that the instances of fluctuating program participation compared to relatively consistent spending on media indicate no reliable correlation between participation and media expenditures.

As further explained in Exhibit 1.7, each year the Company pays for a telephone survey which asks respondents a variety of questions, including whether or not they are familiar with the Thermwise programs, and what are their other opinions and motivations surrounding energy conservation. Only 4-5% of respondents can name

the Thermwise program without being aided, however, a majority of respondents eventually state that they are aware of the program after being given a variety of prompts. While the survey may have certain beneficial uses, such surveys can only track responses rather than real world behaviors, which may or may not actually align. The problem therefore, is that the survey is used by the Company to assert that general aided awareness of energy conservation programs is an adequate measure of the media campaign's effectiveness. The Office asserts that awareness measures and opinion information gained through a survey are an insufficient means to justify the continued spending of hundreds of thousands of ratepayer dollars on media and sponsorships. Rather, the Company should provide more direct evidence of correlation between these spending categories and participation that ultimately provides energy savings.

An additional problem that the Office has identified with the Company's media expenditures is the lack of a specific strategy aside from general awareness. Among the fundamentals of a prudent and successful marketing strategy are specific goals related to market segmentation. This would include the targeting of market segments that provide the greatest opportunities for participation, as well as the targeting of segments that have been identified as having the greatest need of additional education. The Office notes that targeting does not mean excluding certain groups, rather it means marketing efforts that better align segments and demographics with the programs, measures, and energy savings that are likely to appeal to and be taken advantage of by that group. The Office asked the Company in a discovery request to:

“Please provide the Office with any marketing studies or marketing plans that pertain to the 2018 Market Transformation Initiative. This should include the planned media mix, media schedule, targeted demographics, and how different Energy Efficiency measures will be targeted or highlighted in the marketing effort<sup>4</sup>.”

While the Company provided the full telephone survey with responses, and the media schedule, the Company's response merely echoed its statements in Exhibit 1.7 in that awareness of the program generally indicates successful marketing. Therefore, the

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<sup>3</sup> OCS Comments in dockets 14-057-25 (November 14, 2014), and 15-057-16 (November 13, 2015).

<sup>4</sup> OCS DR #1 to DEU, November 7, 2017.

Office concludes that the 1.1 million dollars the Company is requesting for media and sponsorships contains no specific targets or strategies, and has no other goal aside from general program awareness, which may or may not actually affect participation.

In its order in docket 15-057-16 dated December 16, 2015 the Commission responded to the Office by stating that “it is unclear what the Office would have us do....and we encourage the Office to avail itself of the discovery process in future dockets”. For this reason, the Office herein offers additional discussion and explanation on the process it has followed and the policy it recommends.

- First, the Office has utilized the discovery process in this and previous Questar/Dominion EE/DSM budget dockets including 15-057-16.
- Second, the discovery process can only provide an interested party with information that the Company has at its disposal. In this case, the contention of the Office then and now is that the Company does not possess, and therefore cannot provide, the type of information that would be needed for an adequate justification of these media expenditures.
- Finally, and most importantly, the Commission’s language appears to imply that the burden of proof does not rest with the Company in justifying its expenditures, but that it is the responsibility of the Office and other parties to provide the necessary evidence for the Commission to evaluate the prudence of the Company’s proposed spending level. To the contrary, the Commission should require the Company to justify its use of ratepayer funds or otherwise disallow the recovery in rates of any unjustified expenditures.

In conclusion the Office asserts that the Company has not provided an adequate case for the money it spends on commercials, major sponsorships and other media. The Company states that it chooses marketing projects with “the greatest return”, but the Company has attempted to justify that return based on the number of people exposed to the ads with a supposed validation based on aided awareness scores from a telephone survey, rather than being tied to program performance. The Office notes that the aforementioned weatherization pilot program is an effort to target identified opportunities, however, this type of strategic planning has not been reflected in the proposals and planning for media, advertising and sponsorships, and this singular example cannot be inferred as a justification for the level of spending that the Company is requesting. Furthermore, the Office questions the usefulness of the telephone survey, and does not consider the annual expense associated with that

survey as a prudent use of ratepayer funds. At the very least the survey could be conducted once every two to three years and still be used to gauge program awareness in the manner that it has been.

For these reasons the Office recommends that the Commission deny the current budget allocation of 1.1 million dollars towards Advertising and Media, and Marketing Contracts and Promotions which includes major sponsorships. This would result in a Market Transformation budget of \$220,000 and a total budget of \$23,444,834.

### **Recommendation**

The Office recommends that the Commission approve only a Market Transformation budget of \$220,000, reflecting the costs associated with special events and trade shows, DEU administration, State of Utah codes training, and program design.

Prior to any approval of a budget associated with Advertising and Media, and Marketing Contracts and Promotions, the Commission should require DEU to make an additional filing containing evidence and justification for such expenditures, sufficient to meet a just and reasonable standard for inclusion in DEU customer rates.