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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

APPLICATION FOR APPROVAL OF THE)	
2018 YEAR BUDGET FOR ENERGY)	Docket No. 17-057-22
EFFICIENCY PROGRAMS AND MARKET)	DOMINION ENERGY UTAH'S
TRANSFORMATION INITIATIVE)	REPLY COMMENTS

Dominion Energy Utah (Dominion Energy or Company) respectfully submits these Reply Comments to the Action Request Response issued by the Division of Public Utilities (Division) and Memorandum issued by the Office of Consumer Services (Office) dated November 30, 2017 in this docket.

I. REPLY TO THE DIVISION'S ACTION REQUEST RESPONSE

On October 17, 2017 Dominion Energy Utah filed an Application for Approval of the 2018 year budget for Energy Efficiency programs and Market Transformation Initiative (Application). On October 17, 2017 the Utah Public Service Commission (Commission) issued an action request for the Division to file a response to the Company's Application. On November 3, 2017 the Commission issued a notice of filing and comment period on the Company's Application and allowed for interested parties to file comments on or before

Thursday November 30, 2017. On November 30, 2017 the Division filed its response to the Commission's action request and the Office filed comments on the Application.

The Division's Action Request Response made note of the Company's projected 2018 overall participation increase of 16.4%, 4.4% reduction in administrative program costs, and the projected 4.2% decrease in decatherm (Dth) savings. The Company notes that the projected 2018 reduction in Dth savings is mainly attributable to decreased natural gas savings estimates for some rebate measures. Additionally, the projected reductions in the 2018 administrative program costs are a result of the Company's 2017 decision to not renew a contract with a long-term implementation contractor and to perform the work with existing Company staff.

The Division's action request response focused mainly on the Company's proposed program changes and projected cost-effectiveness results. The Company's proposed 2018 changes include the following: 1) reduce the rebate by \$50 for 95% annual fuel utilization efficiency (AFUE) furnace, 95% AFUE furnace with electrically commutated motor (ECM), and 98% AFUE furnaces with ECM in the Appliance, Builder, Business, and Low Income Efficiency programs; 2) reduce the rebate by \$50 for smart thermostats in the Appliance and Builder programs; 3) eliminate the tier 1 tankless water heater as a rebate-eligible measure from the Appliance, Builder, Business, and Low-Income Efficiency programs; 4) add residential boiler reset controls and combined space and water heating units as a rebate eligible measure in the Appliance program; 5) add ENERGY STAR® Multifamily High rise and combined space and water heating units as rebate-eligible measures in the Builder program; 6) add a pilot multifamily initiative (administered by the International Center for

Appropriate and Sustainable Technology or ICAST) in the Weatherization program; and 7) add pipe insulation as a rebate-eligible measure in the Business program.

The Division urged the Company in its response to “always look for ways to implement administrative cost reduction steps in order to improve overall program efficiencies.” The Company agrees with this recommendation and will continue to look for ways to reduce non-incentive costs. The Division also recognized that while the low gas price environment may make it difficult to justify some rebate measures (because of cost-effectiveness concerns), there is overall value to the ThermWise program objectives. The Division expressed support of the 2018 budget and recommended that the Commission approve the Company’s Application. The Company supports the Division’s recommendation for Commission approval of the 2018 Application and budget as filed.

II. REPLY TO THE OFFICE’S RESPONSE

The Office’s memorandum focused mainly on the Company’s proposed changes and 2018 Market Transformation Initiative. The Office’s memorandum also acknowledged that the Company has “...consistently monitored markets, code requirements, and new technologies in order to effectively adjust incentives and ThermWise programs as needed.” The Company agrees with this statement and believes such tasks are vital to the long-term success of its ThermWise programs.

The Office’s review of the 2018 program changes included a discussion on the pilot multifamily initiative as well as an expression of support for the proposal. The discussion on this issue, however, seemed to confuse the 2018 multifamily pilot initiative (proposed to be administered by ICAST) with the weatherization pilot initiative (designed to target communities and customers with historically low participation in the Weatherization

program) which was proposed and approved by the Commission in the 2017 ThermWise budget. To be clear, these are two separate pilot initiatives, targeting two different customer segments, and proposed to be organized under the umbrella of the Company's Weatherization program in 2018.

The Office's discussion of the proposed 2018 Market Transformation Initiative mainly asserts that the Company lacks a specific marketing strategy, other than ThermWise program awareness, that the Company has not sufficiently correlated spending on advertising and media to participation, and that ultimately, the Company has not provided enough evidence that the proposed spending level is necessary. The Office closed its comments with the recommendation that the Commission approve only \$220,000 of the Company's proposed \$1,320,000 2018 Market Transformation Initiative budget, reduce the total 2018 budget to \$23.44 million, and require the Company to make an additional filing, prior to approval of a budget associated with advertising, media, marketing contracts, and promotions, containing evidence and justification for such expenditures.

The Office seems to suggest that the Company should have a marketing strategy aside from, or in addition to, promoting general ThermWise awareness through the Market Transformation Initiative. The Company's decision to promote ThermWise through an awareness campaign is based on long-held marketing industry standards. To illustrate, many current and past marketing campaigns have used an awareness strategy to move customers from general awareness, change behaviors, and ultimately purchase a product. In Utah alone the Company can point to Intermountain Healthcare's Live Well campaign, Slow the Flow, Tobacco-free Utah, and Stop the Opidemic as examples of mass awareness and behavior change campaigns. In the case of the ThermWise programs, the Company's Market

Transformation Initiative advertising and media budget does not promote any one specific program, product, or energy efficient technology. Rather, the “product” the Company is selling is behavior change in the form of natural gas efficiency. Stated another way, the goal behind the Market Transformation Initiative advertising and media budget is to make customers aware of natural gas efficiency and to ultimately have customers choose the efficient option at the point when equipment fails, when a new home or apartment complex is constructed, or when a business is looking to reduce operating costs.

The Office mistakenly suggests that the Company is not advancing market segmentation as part of the Company’s awareness campaign. However, in addition to the general awareness approach of the Market Transformation Initiative, the Company promotes individual efficiency measures within individual program budgets. In fact, the 2017 Lighthouse Research & Development, Inc. (Lighthouse) telephone survey of customers, provided by the Company to the Office in this docket as data request response OCS 1.01, shows that the Company is gathering demographic and other data used for market segmentation purposes. The Company’s media and advertising partners, Faktory Inc. and R&R Partners, use that information to determine customer awareness by segment, design messaging to appeal to each segment, and develop a media mix designed to reach all customer segments. These marketing activities occur both in the Market Transformation Initiative, and within other parts of the overall Energy Efficiency budget.

The Office also recommends that the Company reduce the frequency of the customer telephone survey to every two or three years. To do so would deprive the ThermWise programs of timely feedback and is contrary to established industry practice. In an article

titled “The Brand Report Card,”¹ the Harvard Business Review covers the need for frequent research to monitor the success and health of a brand and its messaging. “Strong brands make frequent and good use of in-depth brand audits and on-going tracking studies.” The annual ThermWise Lighthouse survey is a tracking study. The Harvard Business Review also notes, “A tracking study will collect information on consumers’ perceptions, attitudes and behaviors on a routine basis over time; a thorough study can yield valuable tactical insights into the short-term effectiveness of marketing programs and activities. Tracking studies measure where a brand is now and whether marketing programs are having their intended effects.” A tracking study, by definition, is on-going. Though each product or program is different, in order for a tracking study to provide the necessary insight to be applicable, it has to be done consistently. For the ThermWise program, the tracking study is done at the end of each year’s campaign, a strategy intended to measure effectiveness and guide the following year’s efforts. If the Company reduced the frequency of the survey it would be trying to gauge the effectiveness of two or three marketing campaigns in a single survey, making it nearly impossible to tease out which campaign was most effective or what elements needed improvement. Therefore, the Company disagrees with the Office’s recommendation.

The Company also emphasizes that, while it is true that the advertising and media costs are proposed to increase by 10.5% (an increase that was determined in part based on the information gleaned from the annual Lighthouse survey), the total Market Transformation Initiative budget for the program is proposed to *decrease* by \$20,000, or by more than 1%. The Company did not renew the sponsorship of Real Salt Lake in the amount of \$125,000, it

¹ <https://hbr.org/2000/01/the-brand-report-card>

increased the building codes training budget by \$30,000, and increased the advertising and media budget by \$75,000 in 2018.

It is also important to note that increases to categories within the budget are not necessarily due to "...recent inflation of advertising and media costs."(Office Memo at Page 3, Paragraph 2) DEU Energy Efficiency Exhibit 1.7, Page 12 states that "...the Company has recently seen inflation of advertising and media costs *start to impact the frequency* with which ThermWise ads are run in the market." Advertising and media costs have been rising since the beginning of the ThermWise programs, yet the Company's advertising and media budget has remained at around one million dollars since 2008. According to Havas Media², an industry analysis group providing insight on advertising and media inflation rates, estimates average cost increases of 3.16% from 2010 through the end of 2016. That would suggest that over the seven year study period, advertising and media costs have risen by more than 22%. The Company has discussed these trend in various Advisory Group meetings dating back as far as 2013. That the Company has been able to avoid requesting a substantial increase in the advertising and media budget over that time period, while General Service (GS) customers have also increased by 15.5%³, shows it has acted prudently to find below market rates for services, advertising, and media. With the recent trend of reduced customer awareness (Lighthouse survey shows a 3% decrease in customer awareness of ThermWise from 2014 to 2017), the Company believes that it can no longer rely on cost savings strategies and still hope to maintain high levels of ThermWise customer awareness. For 2018 the Company has proposed to shift money from sponsorships to advertising and media. In future program

² <https://www.aaaa.org/wp-content/uploads/2016/04/HavasMedia-MediaInflationTrendsRevision.pdf>

³ Questar Gas Financials - GS customers as of the period ended December 31, 2010 = 847,163 / GS customers as of the period ended December 31, 2016 = 978,860

years, the Company may find it necessary to propose an overall increase in the Market Transformation Initiative budget in order to keep up with cost inflation and ultimately maintain high levels of customer awareness.

The Company also disagrees with the Office's assertion that the information provided by the Company does not contain enough evidence that the proposed advertising and media spending level is necessary. Beginning in 2014, the Company added a detailed discussion of its Market Transformation Initiative to the Application and Exhibits and has continued to expand the information in that section (DEU Energy Efficiency Exhibit 1.7) to include additional detail and analysis in subsequent filings. The Market Transformation Exhibit provides a description of the background, budget history, the American Gas Association's (AGA) analysis of natural gas energy efficiency industry efforts, summary of the telephone survey results, and an explanation of the proposed 2018 Market Transformation components along with projected expenditures. The Company believes that the data and information presented in DEU Energy Efficiency Exhibit 1.7, provides not just the history and past performance of the ThermWise programs, but also the case and justification for the 2018 Market Transformation Initiative budget. Table 1 shows that the Company has, since the introduction of the ThermWise programs in 2007, always managed to keep actual market transformation spending below the Commission approved budget. Table 2 shows the unique ThermWise participants throughout Utah as of June 2017. A review of this table shows the State's most populous counties have exceed 40% participation in at least one ThermWise program. Table 2 also illustrates that Davis, Weber, and Morgan counties are close to reaching or have exceeded 50% unique customer participation in less than ten years' time. Participation levels this high are industry-leading in terms of natural gas efficiency programs.

The Company has stated in past budget filings⁴ that, according to AGA data, the ThermWise programs have achieved a market penetration rate of 20% or greater for energy efficiency programs in nearly one-third of the time required by other high performing natural gas efficiency programs. Table 3 of DEU Energy Efficiency Exhibit 1.7 shows that the Company has kept administrative and marketing expenditures as a percentage of total spending (24.8% in 2015⁵) well below the U.S. natural gas energy efficiency industry average (39.5%). Benchmarking like this is important and provides good evidence of a successful advertising and media campaign.

In addition to the information contained in DEU Energy Efficiency Exhibit 1.7, the Company has sought to keep the Advisory Group informed by reporting on ThermWise participation in community events, the advertising and media campaign, the results of the annual Lighthouse survey, and by inviting group discussion and questions. As a result, the Company was surprised by the Office's footnote on page 1 of its comments stating that 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." The Company believes that it has always encouraged discussion within the Advisory Group. The Company has also historically welcomed questions throughout each presentation and has specifically dedicated a segment for additional questions at the end of each meeting. The Company also invites program stakeholders, with each Advisory Group meeting scheduler, to submit other topics for discussion. Nevertheless, the Company is grateful to the Office for bringing this perception to light. The Company will work in future

⁴ Docket No. 13-057-14, Application for Approval of the 2014 Year Budget for Energy Efficiency Programs and Market Transformation Initiative, QGC Energy Efficiency Exhibit 1.8, Page 3

⁵ Most recently available American Gas Association Annual Energy Efficiency Report

Advisory Group meetings to ensure that all stakeholders feel welcome to ask questions and provide feedback at any time.

In summary, the ThermWise programs have successfully and cost-effectively delivered natural gas efficiency for nearly ten years. The ThermWise programs have additionally been recognized as a natural gas efficiency leader in the country due, in large part, to the creation of the ThermWise brand and the Company's advertising and marketing campaigns. Acceptance of the Office's recommendations addressed above would effectively eliminate the Company's ability to promote natural gas efficiency to its customers.

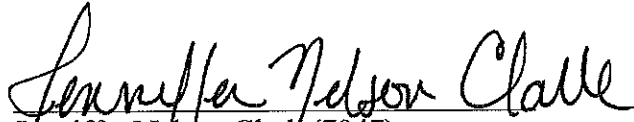
III. CONCLUSION

The Company agrees with the Division's recommendation that the Commission approve the Application as filed with an effective date of January 1, 2018.

DATED this 14th day of December, 2017.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing Application was served upon the following by electronic mail on December 14, 2017:

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