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BEFORE  THE  IDAHO  PUBLIC  UTILITIES  COMMISSION

IN THE MATTER OF THE APPLICATION OF )

INTERMOUNTAIN GAS COMPANY FOR)CASE  NO.  INT-G-96-4

AUTHORITY TO PLACE INTO EFFECT A)

NEW DEMAND SIDE MANAGEMENT)

PROGRAM, THE ATTENDANT ACCOUNT-)

ING PROCEDURES TO BE USED IN )

CONNECTION WITH THE NEW PROGRAM,)

AND TO MODIFY AN EXISTING DEMAND)

SIDE MANAGEMENT PROGRAM, ALL TO)

BE EFFECTIVE AUGUST 1, 1996.)COMMENTS OF THE

)COMMISSION STAFF

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COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and pursuant to the Notice of Modified Procedure issued in this case on July 3, 1996, submits the following comments in response to Intermountain Gas Company's (IGC; Company) proposed demand side management (DSM) program.

BACKGROUND

IGC is proposing a new DSM program which promotes the efficient use of natural gas by facilitating the distribution of low-flow shower heads and faucet aerators.  The Company is also proposing to reduce (from $100 to $50) the rebate amount it offers its space-heating customers to replace electric water heaters with gas water heaters.

PROGRAM ISSUES

Showerheads and Faucet Aerators

In the not too distant past Staff probably would have recommended approval of IGC’s proposed showerhead and faucet aerator program, especially if it had been proposed as a joint project to be undertaken with providers of electricity, water and/or sewage treatment.  However, in today’s regulatory and energy market environments, and given the non-availability of anything but low-flow showerheads, Staff believes that the combination of several problems associated with this program outweighs its potential benefits.  Although the proposed program is relatively inexpensive and provides energy savings to its participants, as well as saving potable water and sewage treatment, Staff is concerned about the equity of cost distribution, declining need for such a program, actual energy savings and measurement of those savings.

Based upon Company estimates the program will have positive benefit-cost ratios on three out of the four standard “California” tests for DSM programs.  The Total Resource Test (all known costs and benefits, except societal) and Utility Test (only the utility’s costs and benefits are examined) are both positive and, since the benefits of the program are provided at no cost to most participants, the Participant Test benefit-cost ratio is practically infinite.  However, the Non-Participant or Ratepayer test indicates a highly unfavorable impact to nonparticipants, e.g. those whose houses were completed after 1991, or who choose not to participate because they have already purchased low-flow showerheads, or who heat their homes, but not water, with gas.

While the Commission has specifically rejected the “no-losers” or Ratepayer Impact Test as the sole means of evaluating the energy conservation efforts of electric utilities, (Order

No. 22299), that order did recognize that this test does provide useful information that should be considered in examining conservation efforts.  In this case, Staff is concerned about the magnitude of the failure of the no-losers test.  The Company’s analysis indicates the costs to the non-participant are significantly higher than the benefits they will receive, with only 40 cents worth of benefits for every dollar in costs.  Because the total costs of the program are relatively small, the potential impact on rates is not large.  However, Staff believes that the disparity between the benefits for participants and non-participants is large enough to warrant caution.  Such a disparity would not be acceptable in a fully competitive marketplace, and as the gas industry moves toward further deregulation, this will become more of a concern.  Should this program be approved, Staff recommends that the order specifically state that such approval should not be viewed as establishing a precedent of support for all programs that have similar benefit-cost ratios from the non-participant perspective.  Further, the order should state that approval is based on the program having the potential for only a relatively small adverse impact upon natural gas rates, and positive, but unmeasured, benefits to all consumers through savings in water and sewage treatment requirements.

A sizeable percentage of the population already has low-flow showerheads installed, and the percentage of homes without such devices continues to decline as older showerheads wear out and are replaced because high-flow showerheads are no longer available.  It will not be many years until there are very few high-flow heads remaining, regardless of whether IGC implements this program or not.  Because IGC's program offers free showerheads, many customers may request them who do not need them.

With programs that rely upon the consumer to install an otherwise free showerhead, such as that proposed by IGC, there is a significant number of heads that are never installed.  Program evaluations have typically indicated that utilities using this approach underestimated the number of un-installed heads that would be distributed, which is a significant source of error in the savings projections for these programs.

Recent program evaluations conducted by the Bonneville Power Administration, as well as others, indicated that the actual energy savings achieved by their programs were grossly overestimated, primarily because many of the showerheads that were replaced through their programs were already low-flow heads.  Consumers often were not aware of whether their showerheads were low-flow or not.  In addition, many consumers were dissatisfied with the performance of their existing low-flow showerhead, and took advantage of the utility’s program to try out a different head.  This may result in improved customer satisfaction, but it usually does not result in significant savings of water or energy.

Although the energy savings estimate used by the Company, 15 therms per year per showerhead requested, takes the results of these evaluations into consideration, we are still concerned that their estimated savings may be too high.  It has been a number of years since the programs evaluated by Bonneville were conducted, and the savings potential has probably eroded significantly since then.  Staff has not proposed an alternative to the Company’s estimate of energy savings, and it is unlikely that the reduction in savings would result in a negative benefit-cost ratio from either the Total Resource Cost or Utility perspectives, but Staff does not believe these ratios would be as positive as IGC has estimated.

Staff is also concerned with the evaluation planned by the Company for this program, and the timing of the expansion from a limited pilot program to a system-wide effort.  Because of the large variation in household sizes and energy usage from month to month, year to year, and from family to family, trying to statistically verify savings from water heating conservation efforts by analyzing billing records is very difficult.  Verifying such savings usually requires large sample sizes, as well as a similar control group, making such evaluations impractical.  Electric utilities have been forced to rely on alternative evaluation strategies, typically involving submetering.  While household natural gas usage, especially during the summer, is not subject to as many outside influences as household electrical usage, Staff is still concerned that the evaluation of billing data planned by the Company may not yield significant or reliable results.

The time frame identified by the Company between the conclusion of the trial phase of the program and the expansion to a system-wide program is very tight.  The evaluations planned by the Company will not be completed prior to the beginning of the expanded program.  It is not clear from the proposal, nor the additional information provided by the Company, on what basis the decision to expand the program will be made.

Water Heater Rebate

The Company has proposed to decrease the incentive provided in the Residential Water Heater Rebate Program from the current $100 to $50.  When originally implemented, the incentive provided through this program encouraged the consumer to purchase more efficient water heaters than were typically purchased.  Since that time, new federal standards have eliminated the less efficient water heaters from the shelves, and the only heaters available exceed the standards required by the program.

The energy conservation techniques used in the heaters currently available on the market provide nearly all the conservation that is available with standard gas water heating appliances.  To achieve additional savings requires the application of pulse or direct vent technologies, and the costs of stand-alone water heaters using these technologies is typically $300 to $500 higher than the cost of standard technology heaters.  This cost increment is considerably more than most consumers are willing to spend.  The Company has indicated that it cannot cost-effectively provide an incentive that would encourage a significant number of consumers to try the advanced technology heaters.  Staff concurs with this view.

Staff believes, given recent changes in energy marketplaces and in federal standards, that the $50 incentive level proposed by the Company is unnecessary and inappropriate.  The program should be terminated entirely unless IGC, rather than its ratepayers, absorbs the cost of the program.  In at least this instance, the competitive market is probably better than regulatory incentives for maximizing public interest.

Conclusions

Given the concerns expressed above, Staff does not recommend approval of IGC’s showerhead or water heater programs.  Of course, the Company would be able to implement either program if its ratepayers are not held accountable for program costs.  If the Commission finds it in the public interest for IGC to promote low-flow showerheads, Staff recommends that the program involve local retailers in each community and that the Company delay full scale implementation of any approved program until the results of its evaluation of a pilot phase are available.  Expansion of the program should be predicated upon the results of that evaluation.

ACCOUNTING ISSUES

IGC is proposing to account for the new DSM program in the same manner currently used for other existing programs.  Presently two programs are being accounted for in this manner:  the residential space heating equipment rebate and the residential water heater rebate programs.  Currently, Account 186-101 is debited upon issuing a water heater rebate and Account 186-106 for a space heater rebate.  These accounts are amortized by crediting

Account 186-105, “Amortize Deferred Water Heater and Retrofit Rebate Cost - Credit” and debiting Account 401-908, “Customer Assistance Expenses.’’

The Company is amortizing a fixed amount of $509,736 each year since the last rate case; Case No. U-1034-122.  It is amortizing this amount yearly based on interpretation of Order

No. 20151.  IGC’s interpretation comes from Section J, “Rebate Program Expenses and Subsidized Financing” which states:

Company witness Lebens proposed to increase the level of the

annual amortization of these expenses from $250,000 to $595,512,

by amortizing them over the average length of time the new rates

would be in effect or one and one-half years.

(Order No. 20151at pp. 20-21)

We also find it fair, just and reasonable to allow the Company its

actual annual rebates expenses less those expenses associated with

the retrofit program or a total of $389,400.  However, we will

amortize the unrecovered balance over a period of three years

consistent with our treatment in other areas.  The net effect of this

adjustment is to increase annual expenses by $259,734.

(Id. at p.22)

The Company has determined that the annual amount to be amortized is the annual level of $250,000 that the Company was using at the time of the last rate case, plus the increase to expenses of $259,734 for a monthly amortization amount of $42,478 or a total of $509,736 annually.  The slight difference between the actual amount incurred in the test year and the amount amortized is due to rounding.  Staff argues that the intent of Commission Order

No. 20151 was to “allow the Company its actual annual rebate expenses.”  Therefore, the correct amount for yearly amortization is equal to the annual expenses of the program, after the unrecovered balance had been amortized over the three-year period.  Hence, the yearly amount to be amortized for the new DSM program should be the amount of the annual expenses of the program.

Accounting Recommendations

In accordance with Staff’s recommendations regarding program issues, if the Company wishes to proceed with these programs, Staff recommends that accounting be “below the line,” i.e. that the shareholders, not its ratepayers, be responsible for the costs.

However, if the Commission approves the program, Staff recommends that the Company account for the new DSM program in Account 186-107 to track the costs of the new program.  Staff also recommends that yearly amortization equal the annual expenses of the program.

All the present DSM programs are amortized to the same amortization account, and the amortized amounts for the ongoing, as well as the discontinued programs, cannot be specifically identified.  At present, Staff sees no value in adjusting the amortization of the current programs as the difference between the correct amortization amount and the current lump-sum amortization amount is $5,336, with the amortization greater than the actual expense.  In fiscal 1995, the Company had expenses of $504,400 between the two active programs, and amortized $509,736.  At the end of 1995, the remaining balance in all the DSM accounts was $615,315.88.  If the water heater rebate program is reduced, and the space heater rebate program declines, the balance remaining in the 186 accounts will be fully amortized in a relatively short period of time.

DATED at Boise, Idaho, this            day of July 1996.

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