

Decision No. C07-0562

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO**

DOCKET NO. 07I-251G

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IN THE MATTER OF THE INVESTIGATION INTO NATURAL GAS DEMAND SIDE  
MANAGEMENT RULEMAKING.

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**NOTICE OF OPENING  
AN INVESTIGATORY DOCKET  
IN PREPARATION FOR RULEMAKING REQUIRED  
PURSUANT TO HOUSE BILL 07-1037**

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Mailed Date: June 29, 2007  
Adopted Date: June 27, 2007

**I. BY THE COMMISSION**

**A. Statement**

1. Through this Order, the Commission hereby gives notice of an inquiry into regulatory changes required for the adoption of natural gas demand-side management (DSM) rules as required by recently enacted House Bill 07-1037. This inquiry is intended to gather information and comments from stakeholders to assist in the promulgation of natural gas demand-side management rules for qualifying retail utilities in Colorado.

2. House Bill 07-1037 requires that on or before September 30, 2007, the Commission is required to “commence a rule-making proceeding, ... to develop expenditure and natural gas savings targets, funding and cost-recovery mechanisms, and a financial bonus structure for demand-side management programs implemented by an investor-owned gas distribution utilities ...”<sup>1</sup>

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<sup>1</sup> See, HB 07-1037, § 40-3.2-103(1) and (2), C.R.S., effective July 1, 2007.

3. We direct Commission Staff (Staff) to conduct an investigation which shall include an informal workshop involving all interested parties, submission of suggested rules, and comments on those suggested rules by stakeholders, prior to our issuance of a formal Notice of Proposed Rulemaking. Depending on the outcome of Staff's inquiry, we will take additional action as necessary. The course of this inquiry will be determined by the nature and content of the information gathered. To initiate this process, we provide the parties with a series of questions to help guide the inquiry. We request that interested parties address the following:

### **Benefit to Cost Ratio**

1. What tests or types of tests should be used to evaluate the B/C (benefit-cost) ratio?
2. Should the B/C test be the same for electric DSM and gas DSM?
3. What are some of the non-energy benefits that the Commission could consider in evaluating gas DSM programs?
4. Should the costs used in the B/C ratio be limited to direct (out-of-pocket) costs? If yes, would that restriction tend to artificially inflate the B/C ratio? Discuss the treatment of that portion of costs that has already been approved for recovery in a rate case.

### **General Description**

5. How should the Commission differentiate between advertising and promotion costs versus customer education costs? (*E.g.*, should an energy audit be considered as a promotion cost?).
6. Describe how to implement programs that address these four areas of gas DSM: (1) energy efficiency, (2) conservation, (3) load management and (4) demand response programs. Discuss any overlap between these categories.
7. Gas utilities may recover prudently incurred costs of DSM programs without having to file a rate case. Such costs include (1) facility investments, (2) rebates, (3) interest rate buydowns, (4) incremental labor costs, (5) employee benefits, (6) carrying costs, (7) employee-related administrative costs, and (8) other administrative costs. Please describe and illustrate each of these cost categories.

### **Distribution of Expenses**

8. Estimate the percentage of total costs comprised by each of following categories of expenditures: (1) program design, administration, evaluation, advertising, and promotion; (2) customer education; (3) incentives and discounts; (4) capital costs; and (5) operation and maintenance expenses?
9. Should these five categories of expenses include an overhead allocation?

**Applicability, Methodology, and Implementation**

10. How can DSM programs be implemented on a non-discriminatory basis, (e.g., apply this requirement to interest rate buydowns)?
11. Should a gas utility be permitted to implement DSM outside its certificated territory?
12. For utilities, how do you plan to implement gas DSM programs on customer premises; (1) Utility provided; (2) Third party vendor; or (3) Equipment and/or installation from preferred list.
13. Should DSM programs and the corresponding customer education efforts focus on energy savings or peak demand reduction?
14. Which fuel switching options, if any, should be considered under gas DSM?
15. How is the “amount of gas saved per unit of program expenditures” to be estimated or calculated?
16. “Cost adjustment procedures shall give gas utilities the option of obtaining cost recovery either through expensing DSM program expenditures or adding them to base rates.” For utilities, when will DSM program expenditures be expensed without adding them to base rates for cost recovery? Should the DSM cost recovery mechanism contain an over- and under-recovery account?
17. Incentives shall be limited to “... twenty percent of the net economic benefits of the DSM programs ...” How should net economic benefits of the DSM programs be calculated?
18. How is cost recovery of gas DSM programs affected by a potential partial decoupling mechanism? Is “double-dipping” a concern?

**Customer Participation**

19. What constitutes an energy audit? Is there a generally accepted approach to conducting energy audits? Should customers pay part of the cost of an energy audit? Who owns the result or report of the energy audit?
20. Should customers be required to pay for a portion of the cost of a gas DSM based on the level of their savings?
21. A utility-sponsored DSM program is available to “full service” residential and commercial customers. What happens if a commercial customer converts from sales to transportation after receiving the benefit of a DSM program? Should the utility write off the costs associated with this DSM program? Should such customer pay an “exit fee”?
22. How would utility unbundling of a gas system affect DSM activities?

**Gas Utility’s Revenues**

23. What is the applicability of statutory phrase “expected stream of future revenue requirements”?
24. Should the “natural gas utility’s revenues from its full service customers in the year prior to setting of such targets” be based on (1) the utility’s annual financial report; (2) the utility’s actual revenues without weather normalization; or (3) another basis?

**Timing**

25. What is an appropriate period for depreciation of capital costs and amortization of other costs associated with gas DSM?
26. Discuss the timeline on which utilities should be required to file its “DSM program expenditure target” for a given year or other period?
27. Discuss the time period to be used to calculate the “amount of gas saved per unit of program expenditures.” Should it be based on the same amortization/depreciation period for recovery of the program expenditures?
28. “The amount of the bonus awarded each year shall be determined based on the extent to which the gas utility has achieved the targets established by the Commission.” Discuss the appropriate timeline for a report detailing whether a utility has achieved the targets established by the Commission from prior period. Should this report be filed at the same time as the annual report required under §40-3.2-103(6) (a)?
29. Should the recovery of the bonus be on a separate track from the recovery of DSM program expenditures, since the Commission is required to determine the bonus three months after receiving the annual report required under §40-3.2-103(6) (a). Should the bonus be applied “over a twelve-month period after approval of the bonus.”? Discuss the timeline over which the bonus should be paid.

### **Other**

30. Suppose a utility installs DSM programs behind the meter, such as for a high-efficiency hot water heater or furnace. How will this change the traditional line of demarcation of responsibility at the meter?

In addition to the questions presented above, we encourage responding parties to address other issues related to natural gas DSM rules not addressed by these questions. We request stakeholders to provide suggested rules to be submitted by August 1.

4. In order to ensure that rulemaking commences no later than September 30, 2007,

we set the following procedural schedule for this docket:

- Comments and/or suggested rules to be filed on or before close of business Wednesday, August 1, 2007.
- Written replies to suggested rules to be received by close of business Friday August 10, 2007.
- Any documents related to this inquiry are to be provided in electronic format or emailed to [puc@dora.state.co.us](mailto:puc@dora.state.co.us). These documents will be posted on the Commission’s website.

5. Staff will conduct an informal workshop regarding the natural gas DSM rulemaking on July 18, 2007 from 1:00 p.m. to 5:00 p.m. in Hearing Room A. The purpose of the informal workshop is to provide an open forum to discuss natural gas DSM issues and to

submit suggested rules. We expect that such a workshop will improve the subsequent rulemaking and result in rules consistent with the intent of HB 07-1037. We also think the workshops will help ensure that our rules accommodate the stakeholders' concerns. The informal workshop should provide additional suggestions and comments regarding the interpretation of statutory requirements, the intent of HB 07-1037 and should identify possible areas of contention.

## **II. ORDER**

### **A. The Commission Orders That:**

1. This docket is opened for the purposes discussed above.
2. Interested parties may file written comments in this matter consistent with the above discussion. These initial submissions should address the matters discussed above.
3. Staff will conduct an Informal Workshop as follows:  
  
DATE: July 18, 2007  
TIME: 1:00 p.m. - 5:00 p.m.  
PLACE: Commission Hearing Room  
1560 Broadway, Suite 250  
Denver, Colorado
4. This Order is effective on its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING  
June 27, 2007.**

(SEAL)



ATTEST: A TRUE COPY

A handwritten signature in cursive script that reads "Doug Dean".

Doug Dean,  
Director

THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

RON BINZ

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Commissioners