

FILE

Columbia Exhibit No.

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Annual Application of )  
Columbia Gas of Ohio, Inc. for an Adjustment ) Case No. 09-1036-GA-UNC  
to Rider IRP and Rider DSM Rates )

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**PREPARED DIRECT TESTIMONY  
OF JOHN A. LAVERTY  
ON BEHALF OF COLUMBIA GAS OF OHIO, INC.**

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**COLUMBIA GAS OF OHIO, INC.**

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February 26, 2010

**PREPARED DIRECT TESTIMONY  
OF JOHN A. LAVERTY**

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1   **Q.     Please state your name and business address.**

2   A.     John A. Lavery, 200 Civic Center Drive, Columbus, Ohio 43215.

3  
4   **Q.     By who are you employed?**

5   A.     I am employed by Columbia Gas of Ohio, Inc. ("Columbia").

6  
7   **Q.     Will you please state briefly your educational background and experience?**

8   A.     I graduated from Ohio University in 1976 with a Bachelor of Arts in Government. I began  
9           my career with Columbia in 2003 as a manager of the WarmChoice program, Columbia's  
10          low-income customer weatherization program. In 2009, I assumed my current position as  
11          Manager of Demand Side Management. I began my career in energy efficiency in 1979  
12          and previously worked for the former Ohio Department of Economic and Community  
13          Development, the Ohio Association of Community Action Agencies, and the Corporation  
14          for Ohio Appalachian Development where I worked on design, implementation and  
15          evaluation of energy efficiency services and programs.

16  
17   **Q.     What are your job responsibilities as Manager of Demand Side Management?**

18   A.     As Manager of Demand Side Management, my primary responsibilities include  
19           developing, managing and evaluating energy efficiency programs for Small General  
20           Services customers, including low-income customers. These responsibilities include the  
21           preparation and/or support of exhibits, proposed tariff changes and testimony filed by

1 Columbia in support of the Demand Side Management ("DSM") rider proposed by  
2 Columbia in this case.

3  
4 **Q. Have you previously testified before this Commission?**

5 A. No.

6  
7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to provide background and support of the schedules DSM-  
9 1, Revenue Requirement Calculation, and DSM-2, Expenditures by Month, filed by  
10 Columbia in this proceeding on February 26, 2010, and to support the reasonableness of  
11 Columbia's request for Rider DSM rates.

12  
13 **EXPLANATION OF SCHEDULES:**

14 **Q. Are you familiar with Columbia's Application in Case No. 08-0833-GA-UNC, filed on**  
15 **July 1, 2008, and with the Commission Order dated July 23, 2008 which approved**  
16 **that Application?**

17 A. Yes. In that case Columbia's Application sought approval of several DSM programs. In its  
18 Order the Commission authorized Columbia to implement all of the proposed DSM  
19 programs, subject to approval of the cost recovery rider that was proposed in Columbia's  
20 rate case, PUCO Case Nos. 08-0072-GA-AIR, et al.

1 **Q. Are you familiar with the stipulation and recommendation filed in Columbia's rate**  
2 **case on October 24, 2008 and approved by the Commission in its Opinion and Order**  
3 **dated December 3, 2008 in Case No. 08-0072-GA-AIR?**

4 A. Yes, I am familiar with the DSM components of the stipulation and recommendation as  
5 approved by the Commission.  
6

7 **Q. What are the customer benefits of the DSM program?**

8 A. The primary customer benefits of the DSM program are lower natural gas usage and bills as  
9 a result of the implementation of energy efficiency measures. Other customer benefits may  
10 include improved health, safety, housing affordability, and building durability, and reduced  
11 green house gas emissions.  
12

13 **Q. Please provide a brief description of each of the DSM programs for which Columbia**  
14 **has incurred costs during 2009.**

15 A. Columbia incurred costs for several DSM programs during 2009. The Low Cost Product  
16 Rebates program, now called Simple Energy Solutions, provides rebates to customers who  
17 purchase programmable thermostats and/or high-performance, energy-efficient  
18 showerheads. The program offers a \$25 rebate per thermostat on up to two thermostats per  
19 gas heated home, and a \$10 rebate on up to three showerheads per gas heated home.  
20 Customers may purchase eligible products from our E-Store, operated by Energy  
21 Federation, Inc., and have the rebates applied automatically to the purchase price, or they  
22 may purchase products at a retail establishment and mail in a rebate form with the UPC and  
23 receipt and get a rebate check in the mail. Customers can also have a plumbing, heating, or

1 home improvement contractor install eligible products, and mail in the rebate form with the  
2 contractor invoice and UPC code. The Simple Energy Solutions program incurred costs for  
3 marketing, implementation, and administration. 2,872 customers purchased 1,637  
4 programmable thermostats and 2,791 showerheads through the program. Total rebates were  
5 4,428. The program was marketed by Conservation Services Group (“CSG”) through bill  
6 insets, on-bill messaging, newsletter articles, press events, a home improvement show, and  
7 direct mail to approximately 5,000 heating and plumbing contractors and direct mail to  
8 53,469 Columbia customers with space heating loads between 600 and 700 Ccf/year and  
9 water heating loads of at least 75 Ccf/year in the Franklin, Lucas and Cuyahoga county  
10 markets.

11 The Home Performance Program, now called Home Performance Solutions,  
12 provides low-cost energy audits (with the cost of the audit rebated if the customer  
13 implements any of the major qualified energy efficiency improvements), programmable  
14 thermostats and high-performance, energy-efficient showerheads (if needed), and rebates for  
15 high-efficiency gas furnaces and boilers, air sealing, and attic and wall insulation to  
16 customers with higher than average gas usage. CSG is Columbia’s implementation  
17 contractor for this program. CSG has energy auditors located strategically throughout  
18 Columbia’s service territory to perform the residential customer energy audits and install the  
19 programmable thermostat and showerhead, if needed. CSG also recruits, manages and trains  
20 the HVAC and insulation contractor network, processes rebates, and among other things,  
21 maintains a database of customers served and transactions processed. The Home  
22 Performance Solutions program is a complex, whole-house weatherization program that is  
23 time consuming to implement and ramp-up. The program launched in the third quarter of

1 2009. Energy audits were provided to 274 customers, and 89 thermostats and 199  
2 showerheads were installed during the energy audit process. CSG's contact center handled  
3 1,175 calls from customers during this period. No rebates for qualified energy efficiency  
4 improvements have been processed yet due to the lag time between getting an energy audit,  
5 obtaining bids, and having contractors complete the work and return the rebate forms to  
6 CSG for fulfillment. CSG's marketing team created marketing collaterals and marketed the  
7 program to 38,982 customers with high annual gas usage in the Columbus, Toledo, Parma,  
8 Lorain, Cleveland, and Medina markets.

9         The Small Business Energy Efficiency Incentives program, now called Small  
10 Business Energy Solutions, provides rebates to small businesses that install a variety of  
11 energy conservation measures that would lower their natural gas usage, including building  
12 shell insulation, air sealing, high-efficiency heating systems, programmable thermostats,  
13 and natural gas water heating conservation measures. This program incurred ramp-up costs  
14 in 2009 for marketing, program implementation and administration. Saperstein and  
15 Associates conducted market research with small business owners in late 2009 to obtain  
16 input on marketing materials and program designs and measures that would be of most  
17 interest to them. CSG worked with one of its subcontractors, Go Sustainable Energy, to  
18 further evaluate energy efficiency measures that should be included in, or deleted from, the  
19 rebate-eligible energy efficiency improvements list. Modifications to marketing materials  
20 are in progress. The program will launch in February of 2010.

21         The Small Business Energy Saver Audit program is an on-line energy audit tool  
22 from Aclara Software, hosted by the Ohio Department of Development. The on-line tool  
23 allows businesses with energy bills of less than \$150,000 per year to do an energy audit of

1 their facility and to cost-effective measures that they can install to lower their energy use.  
2 Columbia pays an annual fee to Aclara for its share of the software licensing costs.  
3 Columbia also incurred costs for DSM Action Plan development and research, and costs for  
4 conducting stakeholder group meetings. Small businesses completed 275 on-line energy  
5 audits during 2009. Columbia is working with Aclara to modify the audit to connect audit  
6 customers to our Small Business Energy Solutions program.

7  
8 **Q. What are the key DSM programs on which Columbia focused its program ramp-up**  
9 **and implementation efforts in 2009?**

10 A. In 2009, Columbia concentrated its efforts on bidding and awarding implementation  
11 contracts to DSM providers for major programs that had the potential to deliver the most  
12 gas savings. Columbia bid and awarded contracts for services for three of the largest DSM  
13 programs, including Simple Energy Solutions, Home Performance Solutions, and Small  
14 Business Energy Solutions. Columbia issued RFPs that had the potential to result in the  
15 investment of up to 74% of the funds available in 2009. One of the RFPs, for the Energy  
16 Efficiency Loan Fund, was not awarded because Columbia learned that the Treasurer of the  
17 state of Ohio had created an interest rate reduction product (ECO-Link) through local and  
18 statewide banks for residential customers replacing heating systems or performing whole  
19 house weatherization. Columbia will reframe and reissue the Loan Fund RFP in order to  
20 account for this additional resource.

21  
22 **Q. Did Columbia include costs incurred prior to 2009 in this proceeding?**

23 A. Yes. \$84,443 was included on Schedule DSM-1.

1  
2 **Q. Please describe the expenses incurred during 2008 that were included on Schedule**  
3 **DSM-1.**

4 **A.** These are expenses incurred to hire DSM design and evaluation consultants to prepare and  
5 provide support for the DSM Action Plan and costs to conduct the DSM Stakeholder group  
6 meetings as agreed to in the Joint Stipulation and Recommendation in Case No. 05-221-  
7 GA-GCR. These business expenses were reasonable and necessary costs to develop the  
8 DSM program and were included in the 2009 budget.

9  
10 **Q. Why are these expenses included in this proceeding?**

11 **A.** The Finding and Order in Case No. 08-0072-GA-AIR provides Columbia authority to defer  
12 expenses incurred in the development and implementation of the DSM programs. It further  
13 provides for recovery of deferred program costs through Rider DSM.

14  
15 **Q. What are some of the challenges that Columbia faced in implementing DSM programs**  
16 **in 2009?**

17 **A.** Outside of the low-income customer weatherization industry, Demand Side Management  
18 and energy conservation is a fledgling industry in Ohio. Until recently, few national DSM  
19 implementation firms have done business in Ohio. Developing the capacity to implement  
20 DSM programs is similar to starting a new business from scratch; employees and contractor  
21 networks have to be hired and trained, systems need to be developed or fine-tuned, and  
22 marketing the programs to customers has to occur. Developing the capacity and  
23 infrastructure of the energy efficiency industry has taken more time than expected as



1 competition for limited resources between utility and federal energy efficiency initiatives  
2 has increased. Some of the other key challenges that we faced in ramping up DSM  
3 programs in 2009 include: the negative effects of the recession on customers' buying habits,  
4 lower natural gas prices that may reduce customers' interest in energy efficiency and the  
5 precipitous decline in the new home construction market. There remain, however,  
6 significant opportunities to bring energy efficiency to the forefront in Columbia's service  
7 territory.  
8

9 **Q. How do actual DSM costs to date compare to the DSM Action Plan?**

10 A. Columbia allocated approximately \$7.3 Million for DSM activities in 2009. Columbia  
11 entered into contracts that could have resulted in investments of up to \$5.3 Million.  
12 Expenses to date are approximately \$1.6 Million as the programs that are bid ramp up  
13 services, including 2008 program development costs. Columbia did not bid out the New  
14 Home Solutions program in 2009 because of the recession's negative impact on the new  
15 home construction market. Columbia bid, but did not award, the Energy Loan Fund RFP  
16 because of the creation of a residential loan fund by the Treasurer of the State of Ohio, but  
17 will re-frame and re-bid that program. Other programs or projects are in the RFP process.  
18 Columbia witness Noel will detail how these expenditures are recovered in proposed Rider  
19 DSM.  
20

21 **Q. What are Columbia's plans for the DSM funds not invested in 2009?**

22 A. The annual budgets in the DSM Action Plan are budget projections. Our three-year DSM  
23 Action Plan was created so that DSM funds not invested in 2009 and 2010 would be rolled

1 forward to 2010 and 2011 to provide services that will help achieve the natural gas savings  
2 target.

3  
4 **Q. Please describe the energy usage reduction using specified sales volume benchmark.**

5 A. The DSM programs were designed to attain approximately three-quarters to one percent of  
6 Columbia's total annual residential and commercial jurisdictional tariff sales, adjusted for  
7 weather. This translates to target savings of approximately 611,000 to 815,000 MCF  
8 cumulative over a three-year period following the installation of energy efficiency  
9 improvements. Annual energy savings lag the installation date of the energy efficiency  
10 improvements by one year when determining savings. Energy savings will be determined  
11 through impact evaluations.

12  
13 **Q. Please describe the treatment of administrative, advertizing and educational expenses.**

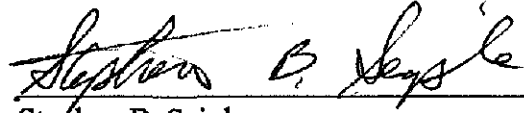
14 A. Administrative, advertizing, and educational expenses are limited to 20% of program  
15 expenditures in total unless otherwise approved by the DSM Stakeholder Group. The  
16 expenses are tracked by DSM program and by project codes. Columbia has invested 2.9%  
17 of the DSM program total budget in administrative and advertizing expenses.

18  
19 **Q. Does this complete your Prepared Direct Testimony?**

20 A. Yes.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing Prepared Direct Testimony of John A. Lavery was served upon all parties of record by regular U.S. Mail this 26<sup>th</sup> day of February 2010.



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