

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY**

**PREPARED DIRECT TESTIMONY
OF
DONNA PEEPLES**

**IN RE:
CHATTANOOGA GAS COMPANY
DOCKET NO.**

INTRODUCTION

1 **Q. Please state your name and position and provide a brief job description.**

2 A. My name is Donna Peeples. I'm Vice President, Corporate Communications and
3 Chief Marketing Officer of AGL Resources Inc. ("AGLR") and my office is
4 located at 10 Peachtree Place NE, Suite 1000, Atlanta Georgia. I have
5 responsibility for overseeing the marketing, communications and sales units of
6 AGLR Inc.

7 **Q. Please describe your professional background and education.**

8 A. I have a bachelor's degree in management from Troy University and more than 20
9 years of energy and related industry experience. I have worked for Atlanta Gas
10 Light, Optimum Energy Sources, Peachtree Natural Gas, Shell Energy, and
11 Lennox Industries. In 1996 I founded Motivated, Inc. a contract sales and sales
12 training company. I serve on the boards of the Southeastern Energy Efficiency
13 Alliance, NGV America, the Energy Solutions Center and the Clean Air

1 Campaign. I'm chairman of the board of the Council for Responsible Energy and
2 the chairperson for the American Gas Association Marketing Communications
3 and Public Relations Committee. I also represent the company at the Southern
4 Gas Association and the Tennessee Gas Association.

5 **Q. What is the purpose of your testimony in this proceeding?**

6 A. The purpose of my testimony is to provide details of the Company's programs to
7 promote conservation and efficiency for its residential and commercial customers
8 consistent with Tennessee Code § 65-4-126. This statute and how it is applied to
9 this case is discussed further in the testimony of Steve Lindsey. In this filing
10 Chattanooga Gas Company has filed a plan that has two principal components: (i)
11 an energy conservation program consisting of ten conservation initiatives or
12 programs plus a community outreach and customer education program; and (ii) a
13 natural gas decoupling mechanism, Alignment and Usage Adjustment ("AUA").
14 My testimony will focus specifically on the energy conservation programs, which
15 I will refer to as energySMART, and the community outreach and customer
16 education program.

17 **Q. Are you sponsoring any exhibits or schedules in connection with your direct**
18 **testimony?**

19

20 A. Yes. I am sponsoring Exhibit DP-1 - Summary of the energySMART Programs.

21 **Q. Please describe the CGC's energySMART program.**

22

1 **A.** The Company is proposing a multi-faceted conservation plan with a variety of
2 programs that target various customer and market segments based on need, point
3 of decision opportunities, and general education. While having the direct benefits
4 of conserving natural resources and minimizing environmental impact, an
5 effective conservation program can also save residential and commercial
6 customers money by reducing usage and thereby utility bills. Mr. Nikolich will
7 discuss his analysis of the effectiveness and benefits of the conservation plan and
8 its programs using the Total Resource Cost Test, the Societal Test, the Program
9 Administrator Test, the Participant Test, and the Rate Impact Measure Test.

10 **Q.** **Ms. Peeples, why is it important for CGC to be involved in proposing**
11 **conservation programs?**

12
13 **A.** While the price of natural gas has declined from the unprecedented high levels
14 reached in 2008 as the economy has slowed, it is anticipated that as the economy
15 recovers the upward trend in the cost of energy will continue. While the current
16 price is well below the level last year, one only needs to observe the price of gas
17 futures on the NYMEX to understand the volatility of natural gas prices. Since
18 natural gas is traded on the open market, LDCs such as CGC have very little
19 influence on the price of the commodity that composes the major portion of the
20 customer's bill. Since we do not have influence over the price, the best way for
21 CGC to help its customers control this portion of their bill is to inform them about
22 the benefits of conservation, educate them about how their energy choices impact
23 their personal finances and the environment, and provide programs that will

1 increase the likelihood of customers investing in energy efficient equipment or
2 increasing the efficiency of their current equipment.

3 **Q. Why is CGC proposing to implement its energySMART program at this**
4 **time?**

5

6 A. With the economy, the environment and energy efficiency at the center of the
7 national dialogue and top-of-mind for consumers across the country, we believe
8 the time is now to introduce our energySMART program to our customers in
9 Tennessee. On a national basis there is an increasing focus on conservation as a
10 way to save customers money and to help protect the environment .
11 Additionally, market research released in October of this year by the Freedonia
12 Group indicates that demand in the US for heating, ventilation and air
13 conditioning (HVAC) equipment is forecast to increase 4.5 percent per year to
14 \$17 billion in 2013. It found that advances will be driven by a recovery in
15 residential construction spending from a low 2008 base. Further that demand will
16 also benefit from interest in more energy efficient HVAC systems, caused by
17 volatile energy prices. Public and private rebates, credits and other incentives will
18 also encourage owners to upgrade to models with efficiency ratings that are at or
19 above ENERGY STAR levels.

20 **Q. Why are these programs needed?**

21 A. Especially during times of escalating fuel costs, the price of the commodity may
22 provide an incentive to conserve. However, the reality is that an increase in price
23 often results in merely a short-term reaction. The goal of the Company's

1 proposed programs is to drive a philosophical and behavioral change in our
2 customers that is sustainable and, at the same time, minimizes the lifestyle
3 changes necessary for them to be able to conserve. Consumers often feel their
4 opportunities to modify energy consumption are limited to such things as turning
5 off a light, taking fewer trips in the car, or adjusting the thermostat to a point of
6 being less comfortable. Most people are not energy experts and have limited
7 information and limited time to address complicated energy issues.

8 Benchmarking surveys across eight states including Tennessee in 2007 by RKS
9 Research and Consulting on behalf of the Council for Responsible Energy found
10 that over 80% of consumers surveyed believe that it is very important to protect
11 the environment, yet only about half were familiar with things they could do to
12 protect the environment – even less – 45% understood how their energy decisions
13 impacted the environment. There is clearly a mismatch between our customers
14 perception of *issues of importance* vs *understanding of solutions* around those
15 issues. In other words, consumers want to do the right thing when it comes to
16 energy and the environment – they just aren’t sure what that is! Our customers
17 should be able to look to us - their energy providers – as the energy experts – a
18 real resource to help them with solutions to these challenges. Traditional
19 regulation that ties the recovery of fixed costs to the volume of gas delivered or
20 sold has proved a detriment to utilities being able to fill that role. Now is the time
21 to resolve these conflicting interests and encourage CGC to take a new leadership
22 role. Price will always be a motivation for some customers to reduce usage on a
23 short-term basis, while other customers may be more motivated by environmental

1 and natural resource concerns. Whatever the motivation, without a clear
2 understanding of what factors influence consumption and, even worse, what
3 options are available to effectuate change, our customers are left frustrated and
4 confused. The Company's proposed programs are designed to provide the
5 education and tools to empower our residential and commercial customers that
6 enable a clear understanding of the complex issues and the impact that their
7 energy choices make. This will develop a sustainable change in their habits with
8 little to no impact on their quality of life. Besides, helping our customers
9 conserve energy, reduce emissions and save money is the right thing to do.

10 **Q. What role will Community Outreach and Education play in implementing**
11 **these programs?**

12
13 A. This program offering is intended to raise the general awareness of the importance
14 of energy conservation among CGC's customers, and also to inform these
15 customers of the specific program offerings that they can take advantage of in
16 order to reduce their natural gas usage and lower their energy bills. The programs
17 I will discuss are tailored to the participants of those programs. Community
18 Outreach and Customer Education will form a critical element of the
19 energySMART program and will provide guidance and information on the Low-
20 Income Weatherization initiative, the customer rebate programs, and the
21 Programmable Thermostat Program. Even the best of programs or technologies
22 cannot be a success unless it is communicated in a way that is timely, relevant and
23 understandable to the audience(s). The Community Outreach and Customer
24 Education will also provide broad-based energy conservation education to all of

1 CGC's customers. Through outreach and education, the Company can inspire its
2 customers to think differently about the way they use energy by providing
3 information about the reduction in environmental impact realized through
4 conservation and how a short term investment will lead to long term savings for
5 them on their energy bills. Further, the Company will use the success of
6 participants in the programs as a way to motivate other customers to participate in
7 the future.

8 **Q. Has CGC developed its community outreach program?**

9 **A.** Yes, we have developed a proven framework for the CGC program. We have
10 developed and implemented many similar, fully integrated customer outreach and
11 education programs at subsidiary utilities of AGL Resources with great success,
12 creating messaging that cuts through the clutter and resonates with customers, and
13 building vibrant partnerships with a variety of public and private entities. The
14 program at each utility is unique and is built around the specific market and is
15 always constructed with the customer at the center. We do not attempt to take
16 "one size fits all" approach when in fact; one size fits "one!" It is not responsible
17 or fiscally prudent to dedicate resources to design a program without
18 understanding the final program requirements. However, when the proposed
19 programs are approved, our community relations team and other in-house
20 expertise in our marketing and corporate communications departments will
21 develop a thorough, strategic plan tailor-made for the Chattanooga service area.
22 From our experience in other states, we know that the use of a variety of media
23 and other communications methods in the Community Outreach and Customer

1 Education Program must be utilized in order to ensure the most efficient, effective
2 and impactful delivery. The rule of seven applies to many disciplines. It simply
3 states that you must tell someone something seven times before it is heard,
4 understood and actionable. It is generally accepted that a customer must receive a
5 targeted message i.e., logo, advertisement, branding etc. seven times before they
6 move from the cognitive stage through the affective stage until they finally reach
7 the behavioral stage. Therefore, the integrated plan will leverage a variety of
8 targeted customer touch points and communication vehicles which will include:
9 print (newspaper, magazine), radio, television, outdoor (billboards, bus shelters)
10 and digital media, direct mail, bill inserts, and employee and partner outreach.
11 We will aggressively pursue and negotiate for both paid and earned media
12 placements to maximize the reach and frequency of our communications to as
13 many CGC customers as possible. We will strategically target the communication
14 mix to most effectively reach customers. The focus of the content will be
15 promoting the suite of conservation programs, and educating our customers on the
16 financial and environmental impacts of the energy choices that they make – both
17 large and small. We will use a range of tools including a carbon calculator, and
18 fact sheets to assist with appliance choices, and seasonally relevant advice on
19 energy conservation measures. Where possible, we will leverage existing creative
20 and relationships to achieve cost synergies – but not at the expense of successfully
21 conveying this important information to CGC customers.

1 We have worked to develop strong relationships with the key media outlets in our
2 service territory and plan to use those relationships to help our efforts in
3 promoting efficient energy use.

4 On a daily basis HVAC contractors, plumbers, and our own field service
5 representatives interact with customers in their homes and present an ideal
6 opportunity to distribute, directly to the customer, messaging specific to the
7 Customer Education Program. To support these face-to-face interactions, we will
8 develop appropriate literature that can be used by these individuals. We will also
9 work with our partnering weatherization agencies to integrate educational
10 program information into their existing client materials and will develop new
11 material as needed.

12 In other states, our affiliate companies have established collaborative relationships
13 with retailers of natural gas appliances, and conducted training to these businesses
14 to arm their sales organizations with the information needed to effectively educate
15 customers as they make important buying decisions affecting their energy use and
16 carbon emissions, and to make them aware of conservation measures. We will
17 also work with any of those outlets that hold homeowner clinics on this topic to
18 integrate our messaging. Similar relationships could be leveraged as part of the
19 Community Outreach and Customer Education Program here in Tennessee.

20

21 **Q. Mrs. Peeples, can conservation really have that great of an impact on**
22 **residential customers' bills?**

1

2 A. Yes. In fact, as discussed in the testimony of Steve Lindsey, if a customer takes
3 advantage of our programs, a residential customer could potentially save up to
4 \$280 annually

5 **Q. Can conservation also have an impact on commercial customers' bills?**

6 A. Yes. Like residential customers, commercial customers can also benefit by
7 applying energy conservation measures proposed in energySMART. In fact, this
8 holds true particularly for CGC's commercial customers since many depend on
9 energy consumption as part of their businesses. For example, foodservice
10 establishments typically use natural gas appliances such as ovens, grills, griddles,
11 and fryers to safely prepare foods. It is vital for these types of commercial
12 customers to make sound decisions on their energy consumption since those
13 decisions will have a direct impact on their viability as businesses. By installing
14 more efficient appliances which utilize energy more efficiently, commercial
15 customers can reduce their energy costs. Not only does that have a favorable
16 impact on the environment, but it can have a significant impact on economic
17 development in Tennessee by reducing the operating costs of businesses. When
18 businesses make sound energy decisions, they reduce their own costs and increase
19 their profitability, which helps them to grow. Business growth is critical for
20 preserving and creating jobs in Tennessee.

21 To that effect, we proposed as part of our energySMART program several
22 programs that assist commercial businesses to improve the efficiency of the

1 natural gas appliances they use in the course of their business. If a commercial
2 customer takes advantage of our programs, that customer could potentially save
3 approximately \$500 annually.

4 **Q. Which customer classes can participate in the energySMART programs?**

5 A. The energySMART program is available to the residential and commercial
6 customer classes.

7 **Q. Ms. Peeples, please describe the components of the energySMART program.**

8 A. CGC's energySMART program includes -, a Community Outreach and Customer
9 Education Program and ten additional energy conservation components for
10 residential and commercial customers:

- 11 • A Low-Income Home Weatherization Program (residential);
- 12 • Three customer conservation and efficiency programs focusing on
13 encouraging residential customers to install high-efficient natural gas
14 water heaters (for both tank and tankless heaters) and furnaces;
- 15 • Five customer conservation and efficiency programs encouraging
16 commercial customers to install high-efficient natural gas equipment;
17 and
- 18 • Programmable Thermostat Program (residential).

19

20 A summary of the energySMART program is included in Exhibit DP-1.

21

22 **Q. Please describe the Low-Income Weatherization Program included in the**
23 **Company's energySMART proposal.**

1
2 A. The weatherization program is specifically targeted to the needs of our low-
3 income customers and is designed to improve energy affordability for those
4 households most in need. This objective is accomplished through the direct
5 installation of cost-effective energy efficiency measures in the home (determined
6 on a home-specific basis). Besides weatherization measures, equipment and
7 appliance repair or aid with appliance replacement would be part of the program.
8 Participants are required to qualify through the energySMART program partner
9 agencies to develop and carry out a household energy savings Action Plan. All
10 efficiency measures and energy education services are provided free of charge for
11 qualifying customers. Customers who qualify within existing guidelines of
12 applicable federal and state programs would be eligible.

13 Under this efficiency initiative, CGC will partner with the local agencies that
14 administer the Weatherization Assistance Program (“WAP”) to Hamilton and
15 Bradley County residents in CGC’s service area, such as the Chattanooga
16 Department of Human Services and the Bradley-Cleveland Community
17 Services. This component of the energySMART program is designed to
18 improve energy affordability for low-income households through the direct
19 implementation of cost effective, energy-efficiency measures determined on a
20 premise-specific basis. These measures include the promotion of existing
21 agency programs, water and water heating conservation measures, insulation
22 upgrades, blower-door guided air sealing, duct sealing and repair, personalized

1 customer energy education and counseling, and individual household energy
2 saving action plans.

3 By working through the agencies that currently administer the WAP,
4 much of the incremental costs CGC would otherwise incur in the administration
5 of the program are avoided. The agencies currently have in place the process and
6 procedures for reviewing and accepting requests for assistance and determining
7 the qualifications of applicants for assistance, they also have the resources
8 available to deliver the weatherization services to the Company's low-income
9 customers. In addition, these agencies are already recognized as reliable sources
10 for the provision of assistance to those in the low-income community and, by
11 working through these agencies, the Company will be able to eliminate the costs
12 of developing an entirely new program.

13 **Q. Will CGC impose any reporting requirements on the agencies that make use**
14 **of the funds provided under this program?**

15

16 A. Yes. Agencies receiving funds under this program will be required to provide
17 basic information that will include cost expended by premise, type of work
18 performed, number of units served and the addresses at which the work was
19 performed.

20 **Q. Please describe the Company's proposed conservation and efficiency**
21 **programs that encourage residential customers to replace less efficient**
22 **appliances.**

23

1 A. The second component of the energySMART program provides rebates to
2 encourage customers to replace old, inefficient water heaters and furnaces with
3 higher efficient natural gas water heaters and furnaces, and, at the point of new
4 construction, to encourage developers and builders to install higher-efficient
5 natural gas equipment in new homes. The customer programs are focused on the
6 major appliances representing the largest energy consumption in the home, which
7 is typically for space heating and water heating. In fact, according to the
8 Department of Energy (DOE), they account for 43% and 12% of a typical utility
9 energy bill respectively. With respect to the space heating programs, CGC is
10 proposing to provide homeowners or residential new home builders with a
11 program designed to encourage customers to choose and install a minimum 90%
12 annual fuel utilization efficiency (“AFUE”) natural gas furnace whenever they
13 replace their existing equipment. Many furnaces that are being replaced today
14 were between 56% - 70% AFUE. Home builders would also be provided a rebate
15 for choosing and installing a minimum 90% AFUE natural gas furnace in new
16 home construction. This program has the potential to have the greatest effect on
17 reducing natural gas consumption for current and future residential customers.

18 With respect to water heating, CGC is proposing programs designed to encourage
19 customers and residential new home builders to move towards more efficient
20 natural gas water heaters. These programs would be provided to encourage
21 customers to choose units with either an energy factor of 0.67 or greater in a
22 standard tank-style or a tankless natural gas water heater with an energy factor of
23 0.82. The water heater is typically the second largest user of energy in most

1 homes. As such, this program has the potential to have the second greatest effect
2 on reducing natural gas consumption.

3 Installing or replacing equipment generally represents the most expensive
4 proposition for the customer. As a result, a customer will generally make
5 significant changes in their equipment during initial premise construction or at the
6 point of equipment failure when a replacement is required. Because the failure of
7 a furnace or water heater is an unplanned event, the cost to replace the equipment
8 is normally not part of the household budget. Add to that the incremental first
9 cost associated with higher-efficient equipment, and it is often more than a
10 customer is prepared to spend - even though an incremental investment today will
11 result in significant savings for years to come. Rebates encourage customers and
12 home builders to purchase and install more efficient natural gas equipment.

13 Specifically, this energySMART component provides that a residential
14 customer or residential new home builder who installs a 90% efficient natural gas
15 furnace instead of an 80% efficient furnace will be eligible for a \$500 rebate.
16 Similarly, a customer or residential new home builder who installs a more
17 efficient natural gas tank style water heater will be eligible to receive a \$150
18 rebate, while a customer or residential new home builder who elects to install a
19 tankless natural gas water heater will be eligible for a \$500 rebate. While these
20 rebates do not completely offset the additional cost incurred when a customer
21 upgrades to the more efficient natural gas equipment, but similar programs
22 implemented in other AGLR utility jurisdictions prove that they do encourage
23 some customers to upgrade their equipment installations.

1 Similar rebates will be provided to commercial customers or commercial new
2 construction developers. A commercial customer or commercial new
3 construction developers upgrading to a Commercial Space Heating Unit/Boiler
4 rated at 80% or above AFUE is eligible for a \$500 rebate. Commercial customers
5 or commercial new construction developers upgrading to water heaters with a
6 minimum 0.67 energy factor will be eligible for a \$500 rebate for a tankless water
7 heater or \$300 for a tank style water heater.

8 Q. **Please describe the Company's proposed Programmable Thermostat**
9 **program.**
10

11 A. Under this program the Company will provide a residential customer an
12 ENERGYSTAR rated programmable thermostat free of charge. Such thermostats
13 are very effective in reducing the amount of energy consumed by allowing the
14 customer to program their furnace to automatically reduce the temperature when
15 no one is home or when it isn't necessary to maintain a higher temperature in the
16 home. The programmable thermostat eliminates the need for the customer to
17 continually adjust the thermostat and provide for the temperature to at a
18 comfortable level when the customer returns home. According to the
19 Environmental Protection Agency (EPA) and the U.S. Department of Energy
20 (DOE), the average household spends more than \$2,200 a year on energy bills,
21 nearly half of which goes to heating and cooling. Homeowners can save on
22 average about \$180 a year by properly setting their programmable thermostats
23 and maintaining those settings.
24

1 **Q. Why as Chief Marketing Officer of a natural gas distributor is it important**
2 **to you to support conservation programs?**

3 A. Traditionally, the recovery of a material portion of utilities' fixed costs has been
4 directly tied to the volume of service delivered to the customers. Since a material
5 portion of the distribution company's costs are fixed, increasing the volume of
6 natural gas distributed to customers, resulted in a lower per unit cost and tended to
7 extend the length of time between rate cases. As a result, a primary marketing
8 goal has been to increase or to maintain the volumes of natural gas used by
9 customers. Otherwise, the utility was at risk of not recovering its fixed cost. This
10 is not unique to the natural gas utilities, but also to other utilities that have
11 volumetric rate structures.

12 For the energy utilities, circumstances have certainly changed. Energy
13 conservation and the reduction of greenhouse gases have become state and
14 national goals. If we are to be successful in meeting the increasing demands of
15 our customers, we must develop and implement marketing campaigns that
16 empower customers to take the steps necessary to conserve energy and save
17 money. We must communicate the message to our customers and educate them
18 about the actions that can be taken to improve the efficiency of their homes and
19 businesses. Today utilities must not only be marketers of energy - we must be
20 marketers of *energy efficiency*.

21 **Q. Does this conclude your testimony?**

22 A. Yes.

energySMART Program

Summary Listing of Programs

	Participants per Year	Rebate	Unit
<u>Residential Measures</u>			
Free Programmable Thermostats	1,500	\$ 20	Furnace/Boiler
Low Income Weatherization	120	\$ 1,650	Home
High Efficiency Furnace/Boiler Incentive	500	\$ 500	Furnace/Boiler
Tankless Water Heater Incentive	300	\$ 500	Appliance
High Efficiency Storage Water Heater Incentive	100	\$ 150	Appliance
<u>Commercial Measures</u>			
Food Service Equipment	200	\$ 200	Appliance
High Efficiency Furnace/Boiler Incentive	135	\$ 500	Furnace/Boiler
Tankless Water Heater Incentive	60	\$ 500	Appliance
High Efficiency Storage Water Heater Incentive	15	\$ 300	Appliance
Booster Water Heater Incentive	25	\$ 200	Appliance