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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

MICHELE BECK
Director

To: The Public Service Commission of Utah

From: The Office of Consumer Services
Michele Beck, Director
Danny A.C. Martinez, Utility Analyst
Cheryl Murray, Utility Analyst

Copies To: Rocky Mountain Power
Jeffrey Larsen, Vice President, Regulation
Aaron Lively, Regulatory Manager

The Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Section Manager

Date: May 5, 2011

Subject: Docket No. 11-035-T04, Schedule 110 Revision for Energy Star New Homes Program

Background

On April 21, 2011, Rocky Mountain Power (the "Company) submitted to the Public Service Commission of Utah (the "Commission") a revision to Schedule 110 – ENERGY STAR New Homes Program (the "Program"). The proposed revision reduces the incentive payment for lighting fixtures from $50 to $20.

Discussion

The purpose of this incentive reduction is to align current market conditions and control the cost effectiveness of the Program. The Company outlined the history of the Program's incentive levels. The rate of growth in the Program incentive applications has grown from less than 500 in 2009 to 9,299 in the first quarter of 2011. In 2010, 10,056 units of lighting fixtures were installed at a cost of $502,000.[1] If lighting fixture applications submitted continues at the current pace, it will increase to $1,859,800. This amount would be 39% higher than the entire amount of incentives paid in 2010. The Company's analysis shows that the current incentive would more than cover the cost of installation of light fixtures. The request to reduce the incentive from $50 to $20 is based

[1] Calculation of 10,056 units x $50 per unit rebate is based on the Company's 2010 Annual Energy Efficiency and Peak Reduction Report – Utah, Table 12 on page 27.

160 East 300 South, Suite 200, Box 146782, Salt Lake City, UT 84114-6701• telephone (801) 530-6674 • ocs@utah.gov • *www.ocs.utah.gov*

on the principle of setting incentives to offset a portion of incremental costs. The Company's analysis indicates that the proposed incentive covers the entire incremental costs of an ENERGY STAR qualified lighting fixture. Given this analysis, the Office concurs that $20 should be the maximum incentive provided.

Another important consideration is the Utility Cost Test, which at the current incentive level shows that the Program is no longer cost effective at a cost/benefit ratio of 0.918. As the Utility Cost Test is the primary test for cost effectiveness in DSM programs, ensuring that it remains greater than one is an important key to ensuring that ratepayer money is properly spent. Reducing the incentive to $20 per unit at the current application rate will reduce the incentives paid from $1,859,000 to $743,920. While this reduced incentive amount is greater than 2010 total payments, it reduces Program cost impacts factoring in the number of free-riders.

While the payment reduction is important to improve Program cost effectiveness, the Office is concerned that this change is properly communicated to builders. Typically, the Office supports a 30-day notification to customers about upcoming changes in incentive levels. Through discussions with the Company the Office was informed of written communication that was sent to authorized builders in the Program on April 25, 2011, close to 30 days in advance of the proposed change. The Company should also immediately post notice on its website of the potential reduction in the incentive payment to begin the communication process.

Finally, the Office recommends that the Company report the impact of this incentive reduction to the DSM Advisory Group after the 4th quarter of 2011 with a recommendation for further incentive changes if necessary.

Recommendations

The Office recommends the Commission approve the Company's proposed incentive reduction for light fixtures from $50 to $20. The Office also recommends that the Company report the impact of this incentive reduction to the DSM Advisory Group after the 4th quarter of 2011 with a recommendation for further incentive changes if necessary.