- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Modification to a Measure Incentive within the Company's ENERGY STAR New Homes Program, which is Administered Through Schedule 110.	))))))	DOCKET NO. 11-035-T04 TARIFF MODIFICATION APPROVAL ORDER

ISSUED: May 19, 2011

By the Commission:

On April 21, 2011, Rocky Mountain Power ("Company") submitted Advice Letter No. 11-T04 regarding proposed modifications to the ENERGY STAR New Homes Program ("Program") under Schedule 110 requesting an effective date of May 21, 2011. On May 9, 2011, the Office of Consumer Services ("Office") filed comments on the proposed changes. On May 16, 2011, the Division of Public Utilities ("Division") also filed comments on the proposed Program changes.

In its filing, the Company argues recent shifts within the Utah lighting market have necessitated a reduction to the Program's current incentive for ENERGY STAR lighting fixture upgrades. According to the Company, the Program recently experienced a dramatic increase in the number of incentive rebate applications for approved ENERGY STAR fixtures installed by participating builders. The Company expects this heightened level of participation will continue for the foreseeable future absent a reduction to the current measure incentive level. The Company contends a reduction to the lighting fixture measure is required to align the incentive with current market conditions and to control the cost effectiveness of the Program as a whole.

According to the Company, the Program experienced a significant increase in participation for the lighting fixture measure in 2010 after incentives were increased from $20 to $50 per fixture. In 2009, the Company processed approximately 500 ENERGY STAR lighting fixture incentive applications. After the incentive level increased, the Program processed incentives for 10,000 ENERGY STAR lighting fixtures in 2010. Through the first quarter of 2011, the Program has received incentive applications for 9,299 ENERGY STAR lighting fixtures, a level which is approximately 93 percent of the total applications processed for 2010.

In response to the significant growth in measure participation, the Company conducted market research which found direct average unit costs of qualifying lighting fixtures in the Utah market currently below the Program incentive level. The Company's study compared the weighted average cost of ENERGY STAR fixtures being sold in the Utah market with the weighted average cost of non-ENERGY STAR fixtures of similar type. The Company's findings show the average weighted ENERGY STAR fixture cost is approximately $42.96 which is lower than the current $50 per fixture incentive. The study results also show current weighted costs of non-ENERGY STAR fixtures average about $26.90 per unit.

The Company's filing indicates the Program generated a Utility Cost Test result of 0.918 in 2010 which is below the minimum cost effectiveness threshold of unity as required by the Commission. The Company contends its proposed reduction in the fixture incentive level will positively impact the Program's economic test results. In addition, the Company indicates it is in the process of redesigning the Program to meet new standards to be issued by the U.S. Environmental Protection Agency ("EPA") and claims these modifications will address the Program's economic performance. As it will be proposing these Program modifications in July and in subsequent months, the Company has not provided sensitivity analysis or projected cost effectiveness results with this filing. The purpose of this filing is simply to align the lighting fixture measure incentive with current market conditions, thereby ensuring the Company, and therefore all ratepayers, are not paying for an incentive at levels greater than what is necessary for this measure.

The Division believes the Company's proposed incentive level reduction will improve program cost effectiveness. However, the Division notes the average incremental cost, as shown in the Company's market research data is approximately $16 per unit which is less than the proposed $20 incentive.

The Division indicates the incentive level for ENERGY STAR fixtures was increased from $20 to $50 in Docket No. 09-035-T10 due to a lack of program participation. Because the Company's filing does not include a sensitivity analysis, the Division is concerned reducing the current $50 incentive level to the average incremental cost of about $16 may have detrimental impacts on program participation.

The Division recommends the Commission approve the proposed $20 incentive level. It also recommends the Commission direct the Company to monitor program economics and provide a sensitivity analysis with forthcoming program modifications.

The Office contends at current ENERGY STAR lighting fixture application submission rates, Program costs will increase to $1,859,800, an amount 39 percent higher than the entire amount of incentives paid in 2010. The Office agrees with the Company's analysis which shows current ENERGY STAR light fixture incentives more than cover the cost of light fixture installation. Based on this analysis, the Office concurs that $20 should be the maximum incentive provided and recommends approval of the proposed incentive.

The Office likewise expresses concern with the Program's current cost effectiveness under the Utility Cost Test. At the current $50 incentive level, the Program is no longer cost effective at a cost/benefit ratio of 0.918. According to the Office, 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. The Office estimates 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, according to the Office, it also reduces Program cost impacts.

While the incentive payment reduction is important to improve Program cost effectiveness, the Office is concerned Program changes should be properly communicated to builders. Typically, the Office supports a 30-day notification to customers about upcoming changes in incentive levels. According to the Office, the Company provided written communication to authorized builders regarding the proposed tariff change on April 25, 2011, close to 30 days in advance of the proposed change. The Office recommends 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 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.

ANALYSIS

We commend the Company for monitoring program participation rates and for identifying actions to help ensure Program cost effectiveness. We appreciate the Company's effort to implement these actions now, even though the Company will recommend additional Program modifications within the next few months.

DSM programs like the Program at issue here are designed as part of an overall effort towards encouraging energy-saving measures and practices. Along with other DSM measures, the ENERGY STAR lighting fixture incentives are valuable in increasing overall energy savings. As the Company stated in its application, however, a guiding principle in determining appropriate incentives for the Program is to set incentives at a level that covers a portion of total lighting fixtures costs and incents customers towards purchasing energy-efficient measures. In order to maintain cost-effectiveness for the Program, the Commission agrees incentives should be reduced to a level that will likely balance both cost-effectiveness and participation levels.

As the Division notes, the filing lacks a sensitivity analysis providing an assessment of associated impacts from changes to incentive levels on program cost-effectiveness and program participation. While we are concerned the Company's filing does not fully address incremental cost issues and lacks data and information explicitly supporting proposed incentive levels, we acknowledge the Division's concerns about detrimental impacts associated with a reduction beyond the $20 incentive level. The Commission also takes administrative notice of the modifications approved under Docket No. 09-035-T10 to increase Program participation. Since modifications will shortly be made for this Program, and in concert with our tradition of gradualism, we find it reasonable to accept the Company's proposed reduction in the Program's ENERGY STAR lighting upgrade measure.

We recognize the Office has concerns regarding Program participant notification. We note the Program's participants are approved builders who were, according to the Company, provided written notification of the proposed Program changes on April 25, 2011. We find this is adequate. In addition to written notification, we recommend the Company post proposed Program changes on its website concurrent with its filing.

To provide for a comprehensive review, and to ensure the Program continues to provide cost effective savings, we direct the Company to undertake the actions ordered below.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

1. The proposed tariff changes to Schedule 110 – ENERGY STAR New Homes Program, filed April 21, 2011, are approved with an effective date of May 21, 2011.
2. The Company shall file Program modifications to meet ENERGY STAR Version 2.5 requirements as soon as is practical to allow a thorough review by parties prior to the EPA July 1, 2011 implementation date for Version 2.5.
3. To facilitate party review, the Company shall file proposed Program modifications relevant to the ENERGY STAR Version 3.0 standards to be implemented by EPA on January 1, 2012, prior to requesting tariff changes and shall present relevant Program modifications to the DSM Advisory Group well in advance of the January 1, 2012 implementation date.

4. The Company shall include a sensitivity analysis on Program cost effectiveness and Program participation rates at proposed incentive levels, commensurate with the updated EPA standards and subsequent Program modifications expected to occur in July 2011 and January 2012. The Company shall present this information at a meeting of the DSM Advisory Group in advance of filing for any further tariff modifications.
5. The Company shall immediately notify authorized Program participants of ordered modifications and shall post notice of all changes on its website.

This Report and Order constitutes final agency action in this docket. Pursuant to Utah Code Ann. §§ 63-46b-12 and 54-7-15, agency review or rehearing of this order may be obtained by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission’s final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code Ann. §§ 63-46b-14, 63-46b-16 and the Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 19th day of May, 2011.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#72790