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Division of Public Utilities

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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Philip Powlick, Director,
Artie Powell, Energy Manager
Abdinasir Abdulle, Technical Consultant
Jamie Dalton, Utility Analyst

DATE: April 15, 2009

RE: Docket No. 09-035-T04. Advice Filing 09-04 – Schedule No. 111 – Home Energy Savings Incentive Program.

RECOMMENDATION (Conditional Approval)

The Division of Public Utilities (Division) recommends that the Commission approve the Company's proposed Tariff changes to Schedule 111, Home Energy Savings Incentive Program for the State of Utah, subject to the following recommended modifications or conditions:

- The program's effective date should be moved to June 1, 2009.
- The attic/ceiling insulation incentive measure for residences with electric cooling but without electric heat should be increased from $0.10/SF to $0.20/SF.
- The wall insulation incentive measure for residences with electric cooling but without electric heat should be increased from $0.15/SF to $0.30/SF.
- The customer application deadline for customers that complete their installations before the June 1, 2009 effective date should be moved from May 15, 2009 to August 1, 2009.

ISSUE

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On March 23, 2009, Rocky Mountain Power submitted its proposed Tariff changes, Schedule 111 – Home Energy Savings Incentive Program, along with a supporting benefit cost analysis of proposed schedule modifications. The proposed tariff changes reduce the incentives offered for insulation measures. According to the Company, there are two reasons for filing tariff revisions. First, there has been a significant increase in program participation rates. The Company's filing shows that actual participation rates for the insulation measures are greatly exceeding planned participation rates for 2009. If current rates persist, the targeted 2009 participation estimates for insulation measures would be reached by the end of April, 2009. The Division noted that such issues were the impetus for Questar's proposed changes to its ThermWise Rebate program, which complements Schedule 111 and provides similar energy efficiency incentives.[1] Second, the Company claims that the increased levels of participation may negatively impact program cost effectiveness. In addition to these concerns, the Company also claims that if incentive measures for this program are not implemented within the same time frame as those offered in Questar's ThermWise Rebate program, customer confusion may ensue.

Because of these concerns, the Company requested expedited treatment of the proposed changes to ensure that program measures can be reviewed and the program can be implemented on the same effective date as the Questar ThermWise Rebate program, April 1, 2009.[2] On March 25, 2009, the Division filed its response to a Commission Action Request in this matter and recommended that the Commission deny the Company's request for an expedited treatment and an effective date of April 1, 2009. Consequently, On April 1, 2009, the Commission issued an Order denying the Company's request for expedited treatment. In response to this Order, the Company filed a correspondence with the Commission requesting an effective date of May 2, 2009, which coincides with the ordered effective date of changes to Questar's ThermWise Rebate program. In its March 23, 2009 filing, the Company also requested that customers with installations completed before the effective date submit an incentive application no later than May 15, 2009 to be eligible for an incentive equal to the original levels.

[1] See Division memoranda detailing its review of Questar's proposed changes to the ThermWise Rebate program under Docket No. 09-057-T04, dated March 18, 2009 and March 26, 2009.
[2] Note that the Commission Order under Docket No. 09-057-T04 specifies May 2, 2009 as the effective date for the changes identified in the ThermWise Rebate program.

DISCUSSION

The Company proposes the following modifications to the Home Energy Savings Incentive Program, Electric Service Schedule No. 111.

- Insulation measures would be differentiated by residences with electric heat and residences without electric heat but with electric cooling.
- The current $0.35/SF incentive for installation of R-19 (minimum) insulation in floor and ceiling areas would be reduced for both electrically heated and electrically cooled residences.
- Residences with electric heat would receive a $0.30/SF incentive for installation of R-19 (minimum) insulation in attic/ceiling areas; a $0.45/SF incentive for installation of R-11 (minimum) insulation in wall areas; and a $0.25/SF incentive for installation of R-19 (minimum) insulation in floor areas.
- Residences with electric cooling only would receive a $0.10/SF incentive for installation of R-19 (minimum) insulation in attic/ceiling areas; and a $0.15/SF incentive for installation of R-11 (minimum) insulation in wall areas; and no incentive is indicated for floor areas.

Over the past 6 months, customer participation in this program has increased significantly, principally for attic insulation installations. The increase is attributable to declining final customer costs once utility incentives are received. This is due to both declining material costs and the influx of contractors now marketing attic insulation and the associated utility incentives to the general public (see the attached SUNROC marketing material). As a result of the combination of these factors, customers qualifying for both Questar and Rocky Mountain Power (original) incentives, may receive insulation services at low or no final consumer cost. As a result, one of the intended program purposes, to induce customers to be co-contributors in efforts to improve energy efficiency, has been diluted. Another result has been an unanticipated rise in the number of customers applying for rebates and an accompanying increase in program expenses.

The Division agrees with the Company's assessment that the incentives are not intended to offset the total costs that a customer incurs to install energy efficiency measures, but should nevertheless cover the majority of the costs (see page 3 of the Company filing, under the Program Design section). The Division also agrees that incentive measures should be realigned to reflect current market conditions so that the program's original intentions and goals are met.

However, the Division questions the Company's rationale to reduce the attic/ceiling insulation incentive for electrically cooled residences from \$0.35/SF to \$0.10/SF (an approximate 71 percent decrease). The Division has three major concerns with this action. First, the filing does not adequately explain how the \$0.10/SF measure was determined.[3] However, in Docket No. 07-035-T09, shortly after Questar's ThermWise program was initiated, the Home Energy Savings Incentive program was changed to make it consistent with the Questar ThemWise Rebate program by, among other things, reducing the incentive offered for customer installation of R-19 (minimum) insulation in floor and ceiling areas for all residences by \$0.65 to \$0.35. This preserved the original intent of the Home Energy Savings Incentive program: to cover a majority of the costs of insulation services. The Company's proposed reduction in the ceiling/attic insulation incentive level to \$0.10 for electrically cooled residences appears contrary to the Company's stated intentions to make the program both consistent with that of Questar and to cover a majority of the customers costs.

The Company attempts to justify the differential between the \$0.20/SF ceiling/attic insulation incentive offered by Questar, and their proposed \$0.10/SF incentive by arguing that, over the course of a year, there is more energy consumed through gas-fired heating (provided by Questar) than electrically powered cooling. Ostensibly, it is assumed that Questar should shoulder a greater proportion of the program costs through a higher incentive level. The Division does not agree with this assessment, as the Company provides no empirical support for this statement.

[3] Company responses to DPU data requests on why this is the case were still outstanding at the time this memo was filed.

Secondly, according to the Company's filing, and as represented by Questar, the two utilities' programs were originally intended to cover a significant portion of the customer's installation costs. The Company filing suggests that installed ceiling/attic insulation costs range from a low of $0.35/SF to a high of $1.00/SF. However, as was evidenced in the recent hearings on Questar's proposed insulation program changes, current prices are averaging between $0.50 and $0.60/SF, with prices as low as $0.35/SF being very unusual. Evidence supporting this pricing level is attached to this memo in the form of a mailer from SUNROC, an insulation contractor that was presented at the Questar hearings as the largest insulation installer in Utah. SUNROC's flier quotes a price of $660 for a 1,200 SF attic space, or $0.55/SF.[4]

For Utah customers with electric cooling only (who are much more numerous than electric heating customers) the proposed utility incentives would total $0.30/SF, or approximately half of the average attic insulation installation cost. In other words, the Company pays $0.10/SF, Questar pays $0.20/SF, and the customer pays the greatest share at approximately $0.25/SF. When this program was changed to be consistent with Questar's program, the intention was that the customer should bear about one-third of the cost of insulation measures. The Company's proposed change would alter that approximate balance of incentives with cost sharing.

The Division is concerned that such a precipitous drop in the Company attic/ceiling insulation incentive will result in a corresponding decline in program participation. While we recognize that any decrease in rebates amounts will result in some drop in participation, the Division is concerned that a change to $0.10/SF for attic insulation in gas-heated homes is likely to significantly reduce customer participation in the program. The Division does not agree with the participation rates forecasted by the Company once the incentive decreases take effect. For example, in Table 4, "2009 Insulation Estimates Including Incentive Adjustments" on page 5 of its filing, the Company estimates that 23,123 participants with electrical cooling will seek the attic insulation incentives with the (71 percent) reduction in the Company's incentive level. This represents a monthly rate that is about 2.3 percent *higher* than the current rates of participation in

[4] The flier also provides an example of how, assuming a customer uses both utilities' rebates and applies for a federal tax credit, "You make $348!"

the program which include the significantly higher incentive levels. As customer prices are effectively increased through the reduction in incentives, it would follow that participation would decrease rather than increase. The Division argues that these estimated participation rates are highly questionable.[5]

The proposed decrease in attic insulation rebate rates to $0.10/SF is also not well-supported by cost benefit arguments. In response to a Committee of Consumer Services data request (CCR 1.8), the Company conceded that "attic insulation in gas heated homes would be cost effective at 25 cents, 20 cents and 15 cents per square foot." The response then goes on to say, "The incentives proposed by the Company strike a balance between providing the necessary incentive to encourage program participation and not paying more for the resource than is necessary." The Division agrees that such a balancing is necessary but argues that the Company has gone too far. We believe that at the $0.10/SF level, program participation is likely to be reduced drastically, thus reducing overall energy savings – and thus ratepayers benefits – much more than is necessary. Setting the incentive level at $0.20/SF, the program measure remains cost-effective, is consistent with Questar's rate, maintains the originally intended cost balancing, and is less likely to severely impair program participation.

For the reasons similar to those outlined above, the Division also favors changing the wall insulation rate for homes without electric heating, but less drastically than as proposed by the Company. We recognize that the same material and labor costs at work in the attic insulation market are at work here and this argues for a reduction in rebate amounts. However, the proposed reduction from $0.45/SF to $0.15/SF is a drastic 67% decrease. In the case of wall insulation, the argument for such a dramatic change is weaker than for attic insulation, as there is no evidence of runaway program participation or program costs for this measure.[6] We are concerned that even the modest participation rate in the current program would suffer severely

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[5] The Division asked the Company to verify this data. As of this filing, the Company has not responded to the Division's inquiries on this issue.

[6],The Company's application (Table 3) shows only 96 applicants for this program in the first two months of 2009 compared with 3,766 attic installations.

with a two-thirds reduction in rebate amounts. In its response to CCS Data Request 1.8, the Company also conceded that, “Wall insulation in electric AC homes would be cost effective at 30 cents, 25 cents and 20 cents per square foot on a utility cost basis.” Thus, the Division finds changing this incentive to $0.30/SF to be a more reasonable and conservative approach.

Finally (with regard to insulation rebate amounts), the Division feels it is important to emphasize that the primary goal of DSM programs is overall energy savings. So long as programs are cost-effective, the Company’s goal should be to maximize overall savings. High participation levels should be sought and thus the lowering of rebate amounts should be done carefully and conservatively so as to maintain as much participation possible while also ensuring that customers exercise due diligence and ratepayers are protected.

The Company requested an effective date of May 2, 2009 to align implementation of the programs with Questar’s ThermWise Rebate program. Much as was the case in the Questar program changes, the Division argues that this does not provide adequate notification time for contractors and customers to complete projects that may already have been contracted. The Division therefore recommends that the program’s effective date should be moved to June 1, 2009. This would allow approximately the same amount of time given under Questar’s proposed changes in Docket No. 09-057-T04

The Company also requested that the customers file their incentive application no later than May 15, 2009. Also as in the Questar docket, the Division feels that customers need a longer period of time to assemble the necessary documentation and complete their applications. In fact, the argument for extra time is more compelling in Rocky Mountain Power’s case as their application (unlike Questar’s) requires that a contractor complete a portion of the form and then return it to the customer before he or she can then send it to the Company. In the Questar case, the Commission required that applications be honored if received within 60 days of the effective program date. We would argue for consistency with this case and therefore recommend August 1, 2009 as the cutoff date for processing applications for jobs completed before the expiration of the old rebate levels.

RECOMMENDATION

Therefore, to ensure consistency between the two programs, and to make sure the incentive is sufficient to cover the majority of the installation costs, and to avoid precipitous declines in program participation, the Division recommends that the attic/ceiling insulation incentive for electrically cooled residences be reduced to $0.20/SF instead of the $0.10/SF proposed by the Company.

Table 1 shows the existing insulation incentive levels in comparison with those proposed by the Company and DPU.

Table 1: Comparison of Insulation Incentive Levels

Insulation Measure	Current Tariff	Company's Proposal	DPU Proposal
Attic/Ceiling - install minimum off R-19	$0.35/SF for all residences	$0.10/SF for Electrically Cooled Residences; $0.30/SF for Electrically Heated Residences	$0.20/SF for Electrically Cooled Residences; $0.30/SF for Electrically Heated Residences
Floor - install minimum of R-19	$0.35/SF for all residences	None for Electrically Cooled Residences; $0.25/SF for Electrically Heated Residences	None for Electrically Cooled Residences; $0.25/SF for Electrically Heated Residences
Wall - install minimum of R-11	$0.45/SF for all residences	$0.15/SF for Electrically Cooled Residences; $0.45/SF for Electrically Heated Residences	$0.30/SF for Electrically Cooled Residences; $0.45/SF for Electrically Heated Residences

The Division argues that this is reasonable since the Company shows in its response to CCS Data Request 1.8 that the attic/ceiling incentive for electrically cooled residences is still cost-effective at $0.20/SF. Likewise, the Division recommends that the wall insulation incentive measure for residences with electric cooling but without electric heat should be increased from $0.15/SF to

$0.30/SF, as this program is likewise cost-effective at this level. Therefore, the Division recommends that the Commission approve the Company's proposed modifications to Electric Service Schedule 111, with the Division's proposed recommendations, effective June 1, 2009. The Division also recommends that the customer application deadline for customers that complete their installations before the June 1, 2009 effective date be moved from May 15, 2009 to August 1, 2009.

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