

➤ Evaluation of AC Tune-up RFP Responses

Public Service Company of Colorado provides this 60-day notice as agreed to in the Stipulation and Settlement Agreement in Docket No. 11A-631EG. Specifically, the Settlement Agreement requires the Company to do the following:

The Company agrees to issue an RFP as soon as possible, but no later than the first quarter of 2012, for a combined residential and small commercial customer air conditioner tune-up program. If in response to the RFP the Company believes it can implement a cost effective program serving this combined market, the Company will propose the program for implementation via the 60-day notice process no later than October 1, 2012.¹

In accordance with the Settlement Agreement, the Company issued an RFP in the first quarter of 2012. Two proposals were received and were analyzed for cost effectiveness. After reviewing the proposals and evaluating several different scenarios and options, the Company does not believe that it can implement a cost effective, combined, residential and small commercial air conditioner tune-up program at this time.

As evidenced by the Company's previous efforts to Pilot an AC Tune-up program, there are many weather related challenges to implementing a cost effective program in the Front Range of Colorado. Recognizing the challenges presented in developing an AC Tune-up program in the Company's service territory one of the bidders (Bidder 1) proposed a Pilot Product with 1,000 participants. The second bidder (Bidder 2) proposed a full program with a customer participation rate significantly higher than the participation the Company has seen in any of the four previous AC Tune-Up Pilots. In order to objectively compare the proposals the bidders were asked for more information and to furnish bids on programs of similar size and scope for comparison purposes.

The information provided by the bidders indicated that including small commercial AC Tune-ups in the program would have a mixed effect on the cost effectiveness of the program. One bidder projected saving slightly more energy as a result of a small commercial tune-up and the other bidder projected slightly less. It was concluded that offering the AC Tune-up to the combined small commercial and residential market would have a minimal effect on improving the cost effectiveness.

The cost effectiveness of the programs in our analysis with several different scenarios was less than the minimum MTRC of 1.00. The participation rates by contractors and customers that were necessary for the program to be cost effective were higher than the Company's most optimistic forecasts.

¹ Stipulation and Settlement Agreement, Docket No. 11A-631EG, page 11.

2,000 Net Participants	Bidder 1 MTRC	Bidder 2 MTRC
MTRC Ratio	0.73	0.75
Net Benefits	-\$262,703	-\$218,931
2,500 Net Participants		
MTRC Ratio	0.80	0.85
Net Benefits	-\$214,379	-\$141,969
3,000 Net Participants		
MTRC Ratio	0.86	0.94
Net Benefits	-\$166,054	-\$65,007

MTRC Breakeven	Bidder 1 = 4,900 Net Participants	Bidder 2 = 3,400 Net Participants
MTRC Ratio	1.00	1.00
Net Benefits	-\$2,421	-\$3,438

There were four main areas of concern that the Company identified during the evaluation of the proposals:

1. Colorado Weather
2. Contractor Participation
3. Customer Participation
4. Future Energy Savings Decline

Colorado Weather:

Our past experience indicates that there needs to be a cooling load in the building in order to perform an accurate test-in, tune-up, test-out procedure demanded by this program. The spring weather in Denver tends to vary significantly from day to day and creates significant challenges to scheduling tune-ups on days that provide a minimum cooling load. The result is a relatively short and disjointed tune-up season of approximately 50 days.

Contractor Participation:

Previous pilot programs have attempted to gain contractor interest and participation in an air conditioning tune-up program. About 30 percent of the contractors who expressed initial interest in our most recent tune-up pilot actually participated. The cost of the equipment required for the contractor to participate in the program and the time needed for training technicians requires an up-front commitment to the program on the part of the contractor. Bidder 1 proposed an equipment incentive about two-thirds of the cost of the required testing equipment and a contractor incentive of about 30 percent of the cost of the tune-up. The proposal from Bidder 2 included no equipment incentive and a contractor incentive of less than half of Bidder 1.

Both bidders indicated that the programs success would require most of the tune-ups to occur during the spring season. Based on the estimated 50-day spring tune-up season discussed above and a reasonable number of tune ups per day per contractor the Company estimates that in order to perform the number of successful tune-ups required for a cost effective program (3,400 to 4,900), the program would require a minimum of 100-150 participating contractors who have expressed an interest and participated in the

required training and at least 35-50 active contractors who are completing approximately five to ten tune-ups per week. There is no compelling difference in the approach or incentive to contractors presented in the proposals that is significantly different from our previous efforts to engage contractors that lead us to believe that such participation rates are achievable. And, in fact, Bidder 2 offered just a small fraction of the contractor incentive that had been included in the Companies' previous pilots.

Customer Participation:

The Company, in previous efforts, has devoted significant resources to promoting interest in residential air conditioning tune-ups. In previous efforts, successful tune-ups with measurable savings were 50 percent of total customer participation. Total customer participation in our past pilots represents about 10 percent of the number of total participants necessary for a successful program.

Both bidders indicated that the advertising and promotion for the program would be the responsibility of the participating contractors. Bidder 1 allowed for a customer incentive of about half the cost of the tune-up and Bidder 2 proposed no customer incentive. Again, we were concerned that the cost of creating awareness of the program as well as the cost of equipment and training would create significant risk for contractors and tend to suppress contractor participation. Also, it was not clear how or if the contractors would promote the program which created a risk of low awareness and low interest in the program from customers especially in the proposal where no customer incentive was offered.

Future Energy Savings Decline:

The amount of energy saved per successful tune-up is projected to decline in future years. Historically the residential cooling method of choice in the Company's service territory has been evaporative cooling. The introduction of central air conditioning is a relatively new phenomenon, gaining in popularity in the 1990's and 2000's. As a result the existing central air conditioning units are relatively newer and more efficient due to the rapid market penetration in the past few years. While there will be significant savings in units originally installed in the 1990's these units are approaching the end of their useful life. As the older air conditioning units fail they will be replaced with more efficient units. The incremental energy savings from tuning up a more efficient unit is less than the savings from tuning up a less efficient unit. As the installed equipment base becomes more efficient the number of participants required for a cost effective program increases. As a result, the probability of a successful program declines over time.

With the challenges presented by the unpredictable Colorado weather during the relatively short spring AC Tune-up season and the experience of previous unsuccessful efforts to pilot an AC Tune-up program, the Company has determined that the Pilot Product proposed by Bidder 1 would not result in any new findings. It was also determined that based on the four areas of concern outlined above there was a significant rate-payer risk in entering into a contract with Bidder 2 to manage an AC Tune-up program of the size and scope necessary to project a satisfactory MTRC. Therefore, the

Company will not be proceeding with either of the two bidders to develop a program at this time.

Further discussion between the parties could occur at a later date to determine if an alternative solution is possible. The Company will continue to evaluate this program for opportunities to improve cost effectiveness.