



On December 1, 2014, Public Service Company of Colorado (PSCo) issued a 60-Day Notice to apply programmatic and related technical assumption changes to the ENERGY STAR® New Homes (ESNH) product. The proposed changes were intended to decrease the likelihood that the product budget will be depleted prior to the end of the next calendar year. The changes described in this Notice are being undertaken to ensure responsiveness to stakeholder concerns regarding a year-round ESNH offering, while maintaining product cost-effectiveness. The changes will take effect on January 29, 2015 for the remainder of time that the 2014 Plan-year is in effect during 2015; the Company also intends for these changes to apply to the 2015/16 DSM Plan. The original Notice and accompanying documentation can be found on the Company's website, here:

[http://www.xcelenergy.com/About\\_Us/Rates\\_&\\_Regulations/Regulatory\\_Filings/CO\\_DSM](http://www.xcelenergy.com/About_Us/Rates_&_Regulations/Regulatory_Filings/CO_DSM).

The Company received written comments on the Notice from four Roundtable participants: the Southwest Energy Efficiency Partnership (SWEET), the Energy Efficiency Business Coalition (EEBC), Energy Logic, and the Office of the Consumer Counsel (OCC). The Company did make some subsequent program adjustments based on the comments received, which are documented in the corresponding redlined attachments:

1. Product Summary
2. Deemed Savings Technical Assumptions
3. Electric Forecast
4. Natural Gas Forecast

The Company appreciates the Roundtable's interest in our DSM products and provides the following response to comments:

#### **1. Comments Submitted by SWEET**

- a. *Concerned that a % better than code approach will create confusion in the marketplace as the same home could have a different incentive depending on where it is built, will discourage local jurisdictions from updating codes and discourage builders from supporting code updates. Continue to pay incentives based on the HERS rating of the home, but update the scale compared to the 2014 program:*

*HERS 66-70: \$200*

*HERS 61-65: \$400*

*HERS 56-60: \$700*

*HERS 51-55: \$1,000*

*HERS 41-50: \$1,500*

*HERS 40 or below: \$2,000*

**Response:** The Company will maintain the percentage-better-than-code rebate structure proposed in the Notice, which aligns the rebate amount with the claimed energy savings, as modeled by the energy rater. Maintaining a Home Energy Rating System (HERS) Index

based rebate structure would require the Company to create a weighted-average baseline HERS to determine rebate levels. This, in effect, would over-incent homes that achieve limited energy savings and under-incent, or penalize, homes that generate high energy savings. Successful percentage-better-than-code new home programs are offered in other parts of the country, such as Wisconsin and Southern California. The Company also conducted interviews with some of its participating homebuilders in which the percentage-better-than-code concept was presented; builders responded positively to this approach and indicated their preference for it over the existing HERS Index based rebate structure.

Regarding the potential achievement of a HERS index of 40 or below, builders would often need to install some form of distributed generation, such as photovoltaics, which cannot be incentivized using DSM funds.

*b. Raters have real costs and will not be enthusiastic backers of the program if their \$ incentive goes away entirely. At the same time, I think the 2014 program design can/should be adjusted to reduce costs and motivate more energy savings per home.*

**Response:** The Company will provide \$75 to the rater for each qualifying home for 2015/16. Here forward, the rater incentive will be described as a rater “administrative fee” as stipulated in our response to EnergyLogic’s comments submitted for this Notice (see below). The added rater administrative fee expense will be absorbed under the proposed 2015/16 DSM Plan portfolio budget. It is anticipated this additional expenditure may increase the likelihood that ENERGY STAR New Homes will be fully subscribed prior to year-end.

*c. Pay the HERS rater \$100 per home that qualifies, and provide an additional \$100 for ENERGY STAR V3 certification (and take some energy savings credit for such homes). In addition, require homes to be at least 10% better than the local code in effect when the home is permitted so that Xcel is not paying incentives to homes that just meet code. For example, if a jurisdiction has adopted IECC 2012 or 2015, the first tier would not be available in that jurisdiction (I think this is the upshot of my proposal). Also, in determining the energy savings from qualifying homes, assume some additional energy savings from the fact that code compliance is not 100%; i.e., the baseline assumption can/should take into account less than perfect code compliance in the real world.*

**Response:** The Company will add two new rebate tiers. The rebate expense will be absorbed under the proposed 2015/16 DSM Plan product budget. It is anticipated this additional expenditure may increase the likelihood that ENERGY STAR New Homes will be fully subscribed prior to year-end.

1. Homes that achieve 10% – 14.999% better than code will be eligible for a \$200 rebate. These homes generate low claimable energy savings but remain cost-effective. This will require all participating homes to be at least 10% better than code.
2. Homes that achieve 40% and higher better than code will be eligible for a \$1,400 rebate. The 35% and higher better than code rebate tier will be cut off at 39.999% better than code and the rebate will remain at \$1,000.

## **2. Comments Submitted by EEBC**

- a. *EEBC has significant concerns with PSCo's decision to restructure its ENERGY STAR New Homes Program (ESNH) and to implement the program as early as January 1, 2015 via a 60-day notice process while the parties debate the merits of this proposal in this docket. EEBC requests that the proposed product changes not take effect while this settlement process is ongoing. If by March 2015 there is no settlement to be achieved in this docket, then EEBC agrees that a 60-day notice may go into effect. However, in that instance EEBC asks for a phased-in approach whereby proposed changes are made over two quarters and not all at once.*

**Response:** The Company intends to proceed with the 60-Day Notice, but has made modifications, as described in this Response to Comments, and corresponding attachments.

- b. *Experience has shown that when sudden product changes materially impact contractors so implementing, there are negative results in product marketing, consumer uptake, and industry-PSCo relationships.*

**Response:** Prior to the Plan filing the Company completed research with several participating builders in which they were asked to rank a set of proposed concepts, including the better than code concept. The better than code concept ranked high and was even preferred by some over the existing HERS index based rebate systems. The Company began communicating the proposed changes to builders and energy raters soon after the Plan was filed in late October. With the proposed changes, builders will continue to receive a rebate designed to offset a percentage of incremental capital costs (ICC) incurred when installing energy efficient measures, thus the program objective is unchanged from the existing rebate award system. The Company will also seek input from participating energy raters on messaging and delivering content to builders.

- c. *PSCo's proposed methodology has the potential to punish jurisdictions (and builders and homeowners alike therein) with more stringent energy codes and reward those with less aggressive building efficiency codes. Because builders often strive for consistency between jurisdictions, the unintended consequence of basing rebates on local codes is that builders in more stringent jurisdictions may be incentivized to build to minimum compliance.*

**Response:** The Company does not agree with this suggestion. Regardless of the code adopted by a jurisdiction, the product requires that every qualifying home achieve energy efficiencies above and beyond the local codes. Providing rebates for code compliance is not the program's aim.

- d. *In 2014, on average, builders received a rebate of \$500 to \$1000 per house. In 2015, in 2012 IECC jurisdictions an Xcel analysis predicts a 13% reduction in houses that qualify for rebates. EEBC members estimate that the reduction will be more significant. To achieve 15-20% above code in these jurisdictions, a builder might be required to install upgrades to the home that, in our estimation, would cost well above than the \$350-\$500 rebate. EEBC therefore believes that participation in the program will decrease in 2012 IECC communities. In contrast, EEBC estimates that houses built in 2009 IECC jurisdictions will not have a problem receiving a rebate but on average the rebate will be \$350 to \$500 (a reduction of \$150 to \$500 per house).*

**Response:** The Company is not aware of an analysis it provided written or otherwise that “predicts a 13% reduction in houses that qualify for rebates [within 2012 IECC jurisdictions].” Rebate levels are designed to offset 30% to 40% of the ICC incurred by the builder when installing energy efficient measures. The percentage of ICC covered by the rebate increases as the builders install additional energy efficiency measures in the home. As stipulated in our response above, the Company has added two new percentage-better-than-code rebate tiers to the product.

- e. *EEBC members both within the building community and the rating community are concerned that energy raters be fairly compensated for additional work mandated by PSCo’s proposed methodology. Performance ratings must now be completed by a Residential Energy Services Network (RESNET) certified home energy rating system (HERS) rater, based on an individual participating home’s presiding local energy code requirements, rather than on the HERS index as in the past. HERS raters must be RESNET certified and must use the REM/Rate modeling software for each home. Although EEBC understands the need to reduce program costs, elimination of the fee significantly impacts rating companies and, indirectly, builders and homeowners as well. PSCo should disclose the amount of administrative fees paid in 2013 and 2014. Shifting the cost to builders, as PSCo proposes, may disincentivize participation in the program. There is a lack of outreach and education to the building community that prior payment of fees was a subsidy. Sufficient time to educate the community of this shift should be given prior to enacting this change. For 2015, EEBC recommends that the \$100 administrative fee be continued. For subsequent years, the fee could be further reduced depending on program performance, but should never be completely eliminated unless administrative burdens on rating companies are commensurately eliminated. There is a cost to doing business with the program. If none of the benefit flows to the rating companies, then none of the burden should.*

**Response:** The Company made the decision to eliminate the rater administrative fee based on several factors. First and foremost was to be responsive to stakeholder concerns regarding a year-round product offering. The Company looked at ways to reduce expenditures and create greater cost-effectiveness, while keeping rebates at levels that continued to encourage builder participation and drive greater energy efficiency in new homes. Thus, the Company put the third-party implementer services out for competitive bid in late 2014. The incumbent third-party provider was ultimately the winning bidder, but offered their services at a 7% discount to their 2014 pricing. We also conducted an

informal survey with participating raters and learned that half of participating raters indicated the administrative fee should be reduced from the \$200 level or eliminated. Some raters also indicated that their preference would be to continue to rebate builders and use any rater administrative fees for builder rebates, if needed.

Feedback received from several of top performing raters (after the Plan was filed) indicated that they were not worried about the \$200 rater administrative fee being eliminated and that they had already begun working with their builder clients to recoup the administrative cost from them. The Company agrees to modify the product to offer a \$75 rater administrative fee for each qualifying home. The added rater administrative fee expense will be absorbed under the proposed 2015/16 DSM Plan portfolio budget. It is anticipated this additional expenditure may increase the likelihood that ENERGY STAR New Homes will be fully subscribed prior to year-end.

- f. *In addition, the elimination of the administrative fees is accompanied by the fact that HERS raters report they will need significantly more time to perform the proposed rebate calculation. EEBC proposes that, if this new methodology requires an additional 15 minutes or more of raters' time to calculate the rebate, PSCo should (1) directly compensate raters for the additional time or (2) adequately inform builders of the programmatic change over a sufficient period of time so they are prepared to compensate raters for additional time.*

**Response:** In most instances, the proposed percentage-better-than-code rebate structure will not require any additional time of the part of the rater to calculate. The homes' percentage improvement over code is calculated in the REM/Rate modeling already being completed by the rater and can be found in the Performance report. The calculation in the Performance report is appropriate for homes that have **not** installed any renewable energy, such as photovoltaics, and can be used for the majority of homes participating in ESNH. For homes that have installed renewable energy, the Company developed and distributed a calculator (Excel spreadsheet) that can be completed in a few minutes using information from REM/Rate. Additionally, the Company's third-party provider has built the percentage-better-than-code calculation function into their data collection system, which will automatically calculate the percentage improvement based on information currently being provided by the energy rater.

The Company began communicating the proposed percentage-better-than-code rebate structure to builders in late October 2014 and budgeted for the development and distribution of additional communications and marketing materials in 2015/16 to educate builders on the change. The Company will request input from participating raters on the messaging and how best to deliver the information to participating builders. It should be noted the Company conducted research with builders where the percentage-better-than-code concept was introduced. Builders ranked this concept high and some indicated their preference over the current HERS index rebate structure.

- g. *EEBC is generally supportive of the reduction in data acquisition requirements for rebate qualification, as is proposed in the New Homes Program. However, the timing and severity of reducing the data acquisition requirement may be a hardship on the energy rating industry. EEBC supports a more gradual reduction for this program.*

**Response:** The Company did not propose to reduce the data acquisition requirements in the Notice or in the 2015/16 DSM Plan. On November 26, 2014, the Company did notify participating energy raters that some data acquisition requirements had been eliminated. The intent of the Company's data acquisition requirement review and the resulting reduction was to minimize the impact of eliminating the rater administrative fee. The Company believes the reduced data requirements are not a hardship, but rather the opposite, as has been voiced by participating energy raters.

### **3. Comments Submitted by Energy Logic**

*There are a number of items that are of concern to us in the new program design. We would like to offer our support to SWEEP's New Home program proposal, Other Rating company's comments, as well as, to the comments offered by the EEBC.*

- a. *Change to % Above Code Rebate Structure: While we understand the motivation for changing from the HERS index to a % better than code structure, we have seen no recognition of one important consequence of such a structure. This apparently unintended consequence is that Xcel Energy is in effect rewarding jurisdictions for adopting or maintaining lower energy conservation codes. The more stringent the energy code, the less that Xcel rebates to the builder. The rebates are unlikely to be sufficient in and of themselves to drive builder behavior changes from one code jurisdiction to another. Builders will attempt to build their homes to as unified a package as possible. They will thus build to the minimum compliance for the most stringent jurisdictions and will not receive rebates but will receive them for jurisdictions that have less stringent energy codes, thus rewarding jurisdictions that maintain the weakest possible energy code. This seems like poor policy.*

**Response:** The Company does not agree with this suggestion. Regardless of the code adopted by a jurisdiction, the product requires that every qualifying home achieve energy efficiencies above and beyond the local codes. Providing rebates for code compliance is not the program's aim.

- b. *Year-round program operation: The desire to have year-round program operation is, in our opinion, nice, but not necessary for the program to be successful. In fact, it is potentially detrimental to the ability to ensure that the program is fully subscribed. While there is a perception that year-round operation is important, it doesn't in fact change builder behavior. In fact, a program that is fully subscribed prior to year end is beneficial to the ratepayer as long as the program does not become fully subscribed too early in the year. The reason is that builders will not change their construction practices based on rebates without two conditions being met; the rebates must be substantial enough that they change builder behavior and the program must last long enough to*

*make it illogical for builders to change their behavior when the program ends. Given purchasing and contracting cycles, the program can become fully subscribed at some point in Q3 or Q4 and no change in behavior is likely. Thus, continued building activity results in an increase in overall energy savings, though, as we recognize, not savings that can necessarily be captured by Xcel in their DSM calculations.*

**Response:** The changes proposed in this Notice were undertaken to ensure responsiveness to stakeholder concerns regarding a year-round ESNH offering. The Company's objective in the design of the 2015/16 ESNH product was to (1) continue to encourage builders to build homes that exceed local code, (2) keep the product from being fully subscribed prior to year-end, and (3) deliver the product in a cost-effective manner. Proposed rebate levels are designed to cover 30% – 40% of the ICC for the improvements made to the home, which has proven to be an effective rebate level as demonstrated by past program performance. Rebate levels are evaluated on a regular basis to ensure customer participation and manage expenditures. The Company continues to see a drop in incremental capital costs as adoption of energy efficiency measures increases. As the cost of recommended energy efficiency improvements drop, rebate levels are adjusted accordingly.

*c. HERS Rater Data Acquisition and Payments to Raters*

*It is true that the incentive payment caused challenges in the past. In the early program years, payments to raters were regarded as payments for ratings, distorting the market price for rating company services. That distortion was caused primarily by the wording of the payment as an "incentive" rather than an "administrative fee". We requested on multiple occasions that the wording reflect that the payment language be changed to reflect that raters are required to perform additional administrative tasks to participate in the program. We do recognize that program costs must be reduced, and feel a graduated decrease in the payment, commensurate with reduced data acquisition demands would cause far less disruption in the market. As it stands, summary elimination of the fee will cause severe hardship for rating companies.*

*It is a good first step to reduce the data acquisition requirements for rating companies. However, we believe that more can be eliminated and that the timing and the severity of the change is a true hardship on the entire energy rating industry; which is a key stakeholder group for the program. In order to reduce the deleterious effect on the industry, we recommend that one or more of the following recommendations be adopted:*

**Response:** The Company hosted a meeting on November 13, 2014 for all energy raters currently participating in ESNH. The purpose of the meeting was to review the proposed changes in the 2015/16 DSM Plan and listen to feedback. There were one or more representatives from six rating companies in attendance, representing 93% of all homes submitted in 2014. Meeting participants requested that the Company review the current data acquisition requirements for raters to determine what could be eliminated. It was noted by participants that a reduction would help minimize the impact of the elimination of the rater administrative fee. The Company conducted its review and determined a significant amount of information, while useful, could be eliminated. Raters were

notified of this action on November 26, 2014, and informed what data would no longer be required. Several raters expressed their appreciation for this effort and indicated the reduction would be very helpful. The remaining product data collection requirements are needed to accurately determine and document home qualification, energy achievement and satisfy product M&V requirements.

*d. Specific requests:*

- 1. For the 2015 program year, administrative fees continue to be paid to the rating companies. This fee should be \$100 for 2015. If the program is fully subscribed early, there will be no impact on program performance.*
- 2. As above, the fees should be termed “administrative fees”.*
- 3. The reduction of the data acquisition burden should continue.*
- 4. For subsequent years, the administrative fee could be further reduced depending on program performance, but should never be completely eliminated unless all administrative burdens on rating companies are commensurately eliminated. There is a cost to doing business with the program. If none of the benefit flows to the rating companies, none of the burden should.*
- 5. The unintended consequence of rewarding homebuyers in jurisdictions with weak energy codes should be further explored.*

***Response:***

1. The Company agrees to offer a \$75 rater administrative fee for each qualifying home for 2015 and 2016. The added rater administrative fee expense will be absorbed under the proposed 2015/16 DSM Plan portfolio budget. It is anticipated this additional expenditure may reduce any budget flexibility for other products and yet maintain the likelihood that ESNH will be fully subscribed prior to year-end.
2. The Company agrees to describe this fee as a rater “administrative fee” going forward.
3. The Company will continue to review its data acquisition requirements and reporting needs and adjust them as appropriate.
4. The Company will continue to look at the program data collection and reporting requirement impacts to participating energy raters and make any necessary adjustments to any fees.
5. This is something that will be under consideration by the Company, and as any information on this matter arises we hope that interested stakeholders will share that data with us.

**4. Comments Submitted by the Office of Consumer Counsel (OCC)**

- a. Suggest that the Residential New Construction Program evolve into a zero net energy or zero net electricity incentive program. The Residential New Construction Program should incentivize builders to get them used to net zero energy or net zero electricity building. Then the building code should change to net zero energy or net zero electricity in 2020 when builders have had a chance to get used to it (and, of course, the new construction program would end).*



**Response:** The program does incent homebuilders to build homes that move towards net zero by installing energy efficiency measures. Renewable energy is required to achieve net zero, which cannot be incentivized using DSM funds.

- b. *There should also be incentives for LED lamps. Public Service's proposed Lighting Efficiency rebate is \$20 for a minimum of 20 CFL lamps, which is about \$1 per lamp. This is about 100% of the cost of a CFL, which seems overly generous. I suggest that this be reduced to \$10 for a minimum of 20 CFLs, which is about 50 cents per lamp or about half the cost of a CFL. I suggest that an incentive for LED lamps be added with a rebate of \$100 for a minimum of 20 LED lamps (60-Watt equivalent or greater).*

**Response:** At the time the 2015/16 DSM Plan was being prepared, the Company assumed an incremental cost of \$1.74 per CFL bulb. The rebate is calculated at \$1.00 per CFL, thus the rebate represents approximately 57% of the incremental cost. If the cost of LED lamps continues to decrease, the Company may re-consider adding LED lamps in 2016.