

➤ **Summary of 60-Day Notice: ENERGY STAR New Homes**

Public Service Company of Colorado (PSCo) is providing a 60-Day Notice to change the ENERGY STAR® New Homes (ESNH) product to clarify the eligibility requirement for homes built in jurisdictions with energy code requirements better than IECC 2009. Rebate levels for impacted homes will be updated as shown in the table below. This change also requires some updates to the product’s technical assumptions and deemed savings. Implementation of the Notice is necessary to align rebates and energy savings with the incremental capital costs (ICC) assigned to each home. The ICC for the reference (baseline) home will be calculated, rather than deemed, to reflect the actual reference home as modeled by the energy rater.

Participation levels may be slightly impacted as some homes that had previously qualified for a rebate may no longer qualify. (For example, a home built in a jurisdiction requiring IECC 2012 that achieves a HERS 66 or higher would no longer be eligible for a rebate because the minimum rebate eligibility requirement for a home in this jurisdiction would be a HERS 65 or lower). PSCo estimates this impact to be less than 0.2% of total participants. The Notice is anticipated to reduce the ICC; this change is needed to reflect the rising building code requirements and their associated costs, which, in turn, will improve overall product cost-effectiveness of the ESNH product. Rebate levels for homes built in jurisdictions where the energy code is better than IECC 2009 will be reduced from what had previously been awarded to the same home.

Technical assumption changes will take effect, and be applied retroactively, to all participating homes completed on or after January 1, 2014 (with no impact to the customer). The change in rebate levels that will impact customers will be implemented going forward upon completion of the Notice period. Proposed changes to the 2014 DSM Plan have been redlined in the attached: (1) Product Description, (2) Deemed Savings Technical Assumptions and (3) Forecast sheets.

PSCo has made the following clarification to the eligibility requirements:

1. Participating homes built in jurisdictions where the prevailing energy code requirement is better than IECC 2009 will be eligible for rebates based on the following:

Builder Rebate Levels for Jurisdictions Requiring Better than IECC 2009

Final HERS Index for Rebate Eligibility	2014 Rebate*
65 – 61	\$300
60 or below	\$600
60 or below, ES v3 Certified	\$900

*Note: Some jurisdictions impose stricter energy code requirements as a home becomes larger (usually measured in sq. ft.). Any home that is required by the prevailing energy code requirement to achieve a minimum baseline HERS index of 60 or lower is not eligible to participate.

PSCo has made the following changes to the technical assumptions that have no savings impacts but will better align the ICC with the actual baseline home:

2. Replace the deemed ICC baseline HERS scores of 80 and 70 with a calculated ICC baseline HERS score based on the rater's energy consumption calculations for each home. The existing methodology for calculating incremental cost-per-square-foot of a home for the *Better Than IECC 2009* code measures—the difference in cost-per-square-foot at a final HERS score and the cost-per-square-foot at a baseline HERS score—will be used for all measures. This will result in the ICC being calculated in the same way as the energy savings calculations.

ESNH 2014 Program Update

Several impacts occurred between January 1, 2014 and implementation of the 2014 DSM Plan that the Company wishes to bring to the attention of interested parties. Since January 1, 2014, ESNH has operated under the 2013 DSM Plan year technical assumptions and rebate levels (as have all the Company's DSM products in Colorado). Participation levels for the first four months of 2014 were significantly higher than what had been seen in past years. The impact of those higher rebate levels through May 1, 2014 resulted in rebate expenditures that were approximately 30% higher than anticipated under the 2014 DSM Plan rebate levels. The combination of these two impacts resulted in higher rebate spend than was budgeted for.

The Company is currently forecasting that 2014 calendar year-end participation will exceed the filed 2014 DSM Plan target by 1,355 participants, yielding a year-end participation level of 3,899. Inclusion of these participants in ESNH would require additional estimated gas expenditure of \$1.49M above the ESNH budget filed in the 2014 DSM Plan. Per the 2014 DSM Plan Settlement Agreement, the Company agreed to strive to keep the program open all year long by shifting dollars among the gas DSM products in the portfolio, up to the approved budget ceiling. The Company will provide stakeholders an update on the status of the ESNH program at the next DSM Roundtable Meeting on August 6, 2014.

These proposed changes result in the updated forecasted year-end energy savings and expenditures for ESNH in the 2014 calendar year as shown in the table below.

The first line in the table below shows the energy savings targets and budgets as filed in the 2014 DSM Plan. The forecasted impacts reflect achievements and expenditures for ESNH under the 2013 technical assumptions through May 1, 2014 and presume implementation of the changes within this Notice applied through year-end.

Forecasted Achievements and Expenditures for CY 2014

	Electric Participants	Electric Budget	Net Gen. kWh Savings Target	Electric MTRC	Gas Participants	Gas Budget	Net Dth Savings Target	Gas MTRC
2014 Targets & Budgets (as filed)	1,924	\$631,958	1,689,054	1.38	2,544	\$2,546,788	95,294	1.38
Year-End 2014 Notice Impacts	2,708	\$1,088,039	2,487,575	1.85	3,899	\$4,035,544	117,195	1.24
Net Change	784	\$456,081	798,521	.47	1,355	\$1,488,765	21,901	.14
Percent Change	41%	72%	47%	34%	53%	58%	23%	(10%)

➤ ENERGY STAR New Homes Product

A. Description

The ENERGY STAR® New Homes Product provides homebuilders with an incentive to exceed state and local building codes and common construction practices. The product continues to build on the work started in 2009, when Public Service launched the product. This product encourages homebuilders to consider a “whole-house” approach to energy conservation when building new single-family and small multi-family homes. This approach combines energy saving construction methods with energy efficient appliances to achieve significant energy savings and provide the customer with lower energy bills, fewer maintenance concerns, higher resale value, and a more comfortable, quiet home.

In 2012, Public Service added a new ENERGY STAR-certified Version 3 (v3) rebate tier to this product. This tier requires the home to be constructed to the v3 standard. Our analysis indicates the v3 standard by itself is not cost-effective due to the increased costs to our builders and the minimal additional energy savings realized from the v3 standards. Further, if the v3 standard were adopted for all product tiers, the ENERGY STAR New Homes Product would no longer be cost-effective. However, the other ENERGY STAR New Homes rebate tiers remain cost-effective at their current levels. The Company remains an active supporter of ENERGY STAR and will continue to actively promote the ENERGY STAR brand and encourage builders to construct their homes to the ENERGY STAR standard.

This product applies to builders of residential single-family, multi-family (duplex, triplex, fourplex) and town homes that receive combined electric and gas service or gas only service from Public Service. Structures that have common conditioned space such as hallways and elevator shafts are not eligible for the product. In order to qualify for our product, participants are required to build homes that exceed state and local building codes. Our baseline for forecasting purposes is 2009 IECC; however, product savings are calculated individually for each home based on the difference between the home’s local jurisdictional code (baseline) and the new home as built. Builders will receive rebates based on the prevailing jurisdiction IECC energy code and the final HERS Index achieved for their home. ~~and energy~~ Energy raters will continue to receive compensation for each qualified home that completes the product requirements. Additional rebate dollars are available to the builder if qualifying energy efficient appliances are installed at the time the home is rated.

The estimated code compliant home in the Denver Metro area climate zone is expected to fall under the 2009 IECC and yield a HERS Index of approximately 80. In this example, Builders-builders participating in the product must build homes that reach the minimum HERS Index of 75 to receive a rebate (where lower HERS scores indicate a more efficient home).

Builders constructing homes in cities or counties where the prevailing energy code is better than IECC 2009 (for example, IECC 2012 or IECC 2015) with more stringent codes are eligible to participate, but the required HERS Index in order to receive a rebate must be 65 or lower will be set below the existing code requirements for that area. An example of a jurisdiction with a requirement to exceed the adopted IECC code by a minimum of 30% is included in Section G. Some jurisdictions impose stricter energy code requirements as a home becomes larger (sq ft). Any home

that is required by the prevailing jurisdiction to achieve a minimum baseline HERS index of 60 or lower is not eligible to participate.

Builders have the flexibility to mix and match efficient technologies or building techniques to obtain a HERS Index that meets the product requirements and qualifies for rebate. For example, a builder could install a high efficiency furnace of 96% AFUE combined with less efficient windows, and meet the threshold provisions. The builder has the option to install any combination of technologies to obtain the desired HERS Index target. Additional prescriptive rebate dollars are available to the builder when qualifying appliances are installed. These include an ENERGY STAR clothes washer, dishwasher, or refrigerator and builders can install one or any combination of the three qualifying appliances to receive a rebate.

The Company uses a third-party product implementer to enroll builders and maintain a quality pool of HERS rating companies. The HERS rater will model and test the home to determine whether it meets the product requirements and to establish a final HERS Index. HERS rating companies have the flexibility to participate in this product by agreeing to a standard Scope of Work managed by the company's product implementer. The HERS raters in the state of Colorado have established strong relations with the builder community they serve and the Company wishes to build on those relationships and support the raters in their efforts. The product implementer will provide product training for the rater and will be available to assist with builder training when needed and will be responsible for obtaining the rating information from the rater and reporting it to the Company.

B. Goals, Participants & Budgets

Goals and Participants

The product goals are based on previous product performance and a forward look into new construction trends based on available market intelligence. Nationally, new home construction starts in 2012 reached their highest level since 2008, but remain way below long-term normal levels. The Colorado market seems to be doing better than the national market but growth levels will continue to be modest. Construction lending remains tight and challenging for builders to obtain and potential new homeowners are still finding it difficult to meet the lending requirements in order to qualify for loans. As a result, we are expecting product participation to increase only slightly in 2014.

Budgets

The budget for this product is driven in large part by forecasted participation levels and includes costs for product administration, builder rebates, rater compensation, materials, promotional events, measurement and verification and labor. Product administration costs include those for our third-party product implementer and compensation paid to the HERS raters for providing rating information and meeting the program requirements. Builder rebates are the single largest expense component for this Product.

C. Application Process

Application (or enrollment) for this product is done by the participating HERS raters who have strong, long standing relationships with most of the builders operating within our service territory. To initiate the process, HERS raters will contact their builders or the builder will express interest in constructing a home better than code to a rater. The rater will explain the product and potential rebates available, review the home's blueprints and building schedule, and enter the home details into our third-party implementer's tracking database. The rater will also work with the builder throughout the construction phase to construct the home to better than code standards.

When the home is completed, the HERS rater will perform an air tightness test on the house and the energy impacts, which in turn drives the final HERS Index achieved. This information is submitted to our third-party implementer who will review and approve each request. The builder will receive a rebate based on the prevailing jurisdiction IECC energy code and ~~on~~ the final HERS Index achieved. The HERS Index is correlated to specific gas and electric savings as determined by the HERS raters modeling and evaluation of the home. There is no rebate application for the builder or rater to complete since all required information is submitted electronically by the HERS rater to our third-party implementer who also ensures all the information entered into their database system is correctly tracked and submitted to Public Service.

D. Marketing Objectives, Goals, & Strategy

The goal of the ENERGY STAR New Homes Product is to motivate builders to construct homes that are more energy efficient than required by local building codes. The product is primarily promoted to HERS raters and builders and, to a smaller degree, consumers, using targeted marketing tactics. The third-party implementer provides recruitment and training services for our HERS rating companies. The participating HERS rating companies conduct and report on each home's efficiency level when construction is complete. The product is promoted to builders by the participating raters and the product implementer using individual sales and recruitment techniques.

Public Service will continue to work with the Colorado Energy Office, cities, environmental organizations and other interested parties to build awareness throughout the customer and builder markets. This marketing effort is intended to communicate the benefits of the product, ENERGY STAR and motivate builders to differentiate themselves by building homes better than code and, if possible, to be ENERGY STAR certified.

E. Product-Specific Policies

Homebuilders will be encouraged to register as an ENERGY STAR partner. Participating HERS raters must be Residential Energy Services Network (RESNET) authorized and use modeling software approved by RESNET. All qualifying homes must be rated using the widely adopted performance path method. The BOP and Sampling test out options will not be allowed for this product. The performance path requires independent verification by a qualified, participating HERS rater.

A HERS rating is determined using approved software, such as REMRate, to model the home's energy use to verify that it meets a target HERS Index. In order to qualify and receive a rebate from Public Service Company, homes built in jurisdictions where the prevailing energy code is IECC 2009 or lower, must need to meet a minimum-achieve a final HERS Index of 75 or less. Homes built in those jurisdictions where the prevailing energy code is better than IECC 2009 (for example; IECC 2012 or IECC 2015) must achieve a final HERS index of 65 or lower to receive a rebate. Some jurisdictions impose stricter energy code requirements as a home becomes larger (usually measured in sq ft). Any home that is required by the prevailing jurisdiction to achieve a minimum baseline HERS index of 60 or lower is not eligible to participate. in the mountain communities and Denver area. Homes do not need to be ENERGY STAR-certified to receive rebates, except for those homes constructed and submitted under the new ENERGY STAR-certified v3 rebate tier. Each rebated home must reach a minimum HERS Index in order to qualify for any incentives, which can be seen in Section G. Public Service requires each house to be modeled and tested using the HERS performance method and the HERS rater must complete the—Thermal Enclosure Checklist (TEC) and the home must pass all sections in order for the builder-to receive a rebate.

The ENERGY STAR-certified v3 builder rebate tier is only available to combined natural gas and electric homes served by the Company. Gas only homes served by the Company are not eligible for this rebate. Qualifying homes that earn the ENERGY STAR label, meaning the participating HERS Rater verifies the home meets all requirements of the ENERGY STAR New Homes Version 3 standard, are eligible to receive a rebate when the following criteria are met:

- a) the ENERGY STAR label is be applied to the breaker box;
- b) the home receives a HERS Index value of 60 or less;
- c) qualifying ENERGY STAR refrigerator, dishwasher, and clothes washers are installed in the home;
- d) More than 20 or 100% of ENERGY STAR-qualified light fixtures (whichever is less) are installed in the home; and
- e) The home receives both electric and gas service by Public Service.

~~Public Service will offer a separate rebate structure for homes requiring low HERS Index scores. An example is provided in Section G.~~

Gas only participants are not eligible to receive the \$10 rebate for installing the ENERGY STAR refrigerator measure. Homes that receive electric service only from the Company are not eligible to participate in this product. In other words, the home must receive gas only service or combined gas and electric service from the Company in order to participate.

The product does not include the impacts of a PV or other renewable generation systems when calculating the HERS Index for a home. Incentives for PV systems are paid through the Solar*Rewards product. Accordingly, energy savings credit for PV systems is not taken under this product.

F. Stakeholder Involvement

The product continues to be refined due to changes occurring in the new homes marketplace. We strive to maintain our on-going relationship with the Environmental Protection Agency (EPA) and Department of Energy, who manage the national ENERGY STAR program. The Company is an active Sponsor and participant in the national program and recognizes, among other things, the strong awareness of the ENERGY STAR brand. In order to maintain this relationship and grow the product, we worked with the EPA to develop the new ENERGY STAR-certified v3 rebate tier.

In addition, Public Service Company serves on the new home construction committee for the Consortium for Energy Efficiency, which meets regularly and works closely with the EPA and ENERGY STAR, attends the ENERGY STAR Homes Partner meetings, and is represented at RESNET conferences by its third-party program implementer.

Public Service will strive to work with the Colorado Energy Office as well as other Colorado entities, such as the City of Denver, to make the ENERGY STAR New Homes product successful by offering a consistent message and process.

We recently implemented a monthly communication process whereby all builders are updated on product achievements such as number of completed homes, savings realized and other important information.

G. Rebate Levels

Builders are eligible to receive a rebate based on the final HERS Index achieved for their home and may also be eligible to receive a rebate for installing one or any combination of the qualifying appliances.

Builder Rebate Levels for Jurisdictions Requiring IECC 2009 or lower

<u>Final</u> HERS Index for Rebate Eligibility	2014 Rebate*
75 – 71	\$100
70 – 66	\$250
65 – 61	\$500
60 or below	\$1,000
60 or below, ES v3 Certified	\$1,200

~~Public Service will offer a separate rebate structure for homes requiring low HERS Index scores. An example of a jurisdiction with a requirement to exceed the adopted IECC code by a minimum of 30% is included below:~~

Example Rebate Structure for Builder Rebate Levels for Jurisdictions Requiring Low HERS Index Scores Better than IECC 2009

<u>Final HERS Index for Rebate Eligibility</u>	<u>Up to 3,000 sq ft Rebate for 20142014 Rebate*</u>	<u>3,001 sq ft and Over</u>
65 – 61	\$300	N/A
60 or below	\$600	N/A
60 or below, ES v3 Certified	\$900	N/A

~~*The example above assumes this jurisdiction requires homes up to 3,000 sq ft to be 30% more efficient than 2006 IECC. In this example, a 3,000 square foot home that achieves a HERS Index of 65 would receive a total rebate of \$300 (for meeting the minimum Rebate Eligibility threshold). Homes larger than 3,000 sq ft would not be eligible for any rebates~~
Note: Some jurisdictions impose stricter energy code requirements as a home becomes larger (usually measured in sq ft). Any home that is required by the prevailing jurisdiction to achieve a minimum baseline HERS index of 60 or lower is not eligible to participate.

Additional product requirements (refers to both rebate Tables above) include:

- The final HERS Index must be less than the maximum allowed by code to qualify for a rebate.
- Rebate levels will be adjusted as appropriate to account for codes requiring lower than standard HERS Indexes.
- No rebates will be given for homes with a baseline HERS Index requirement of 60 or lower.

For the appliance rebate option, the builder will receive a rebate for installing one or any combination of the three qualifying appliances including: ENERGY STAR clothes washer, dishwasher, and/or refrigerator. The appliance rebate option is available to all newly constructed homes served by the Company with combined residential gas and electric service. Gas only homes are not eligible for the ENERGY STAR Refrigerator Rebate; however they are eligible for the ENERGY STAR dishwasher and clothes washer rebates.

Appliance Rebate Structure for ENERGY STAR New Homes

Appliance	Rebate
ENERGY STAR Dishwasher	\$10
ENERGY STAR Clothes Washer	\$50
ENERGY STAR Refrigerator	\$10

Rebates for this product will only be paid for a qualifying HERS rating and appliances. Separate prescriptive rebates for other equipment such as lighting, air conditioners, furnaces, insulation, and hot water heaters are not available for homes participating in the product since the impacts from this equipment is already included in the HERS analysis and final HERS Index.

Participating HERS energy raters will receive a maximum payment of \$200 for qualified homes tested using the HERS Performance method. Homes must earn a rebate and successfully complete the Company's specified requirements for the Rater to receive the \$200 payment.