Decision No. C14-0997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 13A-0686EG

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF A NUMBER OF STRATEGIC ISSUES RELATING TO ITS DEMAND SIDE MANAGEMENT PLAN.

DECISION GRANTING IN PART, AND DENYING IN PART, APPLICATIONS FOR REHEARING, REARGUMENT, OR RECONSIDERATION

Mailed Date: August 18, 2014
Adopted Date: August 13, 2014

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I. BY THE COMMISSION

A. Statement

1. This matter comes before the Commission for consideration of two applications for Rehearing, Reargument, or Reconsideration (RRR) filed by Public Service Company of Colorado (Public Service or Company) and the Southwest Energy Efficiency Project (SWEEP) on July 21, 2014.

2. The applications for RRR seek to modify Decision No. C14-0731 (Decision), issued July 1, 2014, which granted, with modifications, Public Service's application for approvals of energy savings and demand reduction goals as well as proposed incentives and policies addressing demand side management (DSM) programs.

3. As discussed below, we grant in part, and deny in part, the applications for RRR.

B. Discussion

1. Annual Spending Cap

4. The Decision established an annual spending cap of $98.1 million for Public Service's electric energy efficiency programs. In its application for RRR, Public Service requests that the Commission modify the annual spending cap, arguing that the cap incorrectly included the Company's Saver's Switch demand reduction program. Public Service argues that costs of other demand reduction programs, such as the Interruptible Service Option Credit (ISOC) or the Third Party Demand Response program, were not included in the costs used by the Commission to develop the cap. Public Service proposes an annual spending cap for electric energy efficiency programs of $84.3 million, excluding the costs of the Saver's Switch program.

5. We agree with Public Service that the costs of the Saver's Switch program should not be used to set the annual spending cap for electric energy efficiency programs intended to

meet the annual savings goal of 400 GWh as established by the Decision. We therefore adopt Public Service's proposed cap of $84.3 million.

2. Financial Incentive

6. Public Service argues that the financial incentive adopted in the Decision will have an adverse financial impact on the Company and will not provide it with an opportunity for its investments in energy efficiency to be more profitable than its other investments. Public Service asserts that, even if it were to achieve 100 percent of its energy savings goal, the Company's DSM portfolio would be unprofitable. Based on its calculations, including estimates of lost revenues, Public Service states its financial loss for 2015 could be $14.5 million under the financial incentive structure approved by the Commission.

7. To enhance the profitability of its electric DSM portfolio, Public Service requests that the Commission double the incentive from a 5 percent share of net dollar savings to a 10 percent share.[1] Public Service further suggests that the Commission adopt a financial incentive for achievements beginning at the 80 percent level of the Company's savings goal rather than offering no incentive until the Company reaches 100 percent of its goal.

8. We fully considered and rejected alternatives to the 5 percent incentive adopted in the Decision, including percentage shares of the net dollar savings higher than 5 percent. Likewise, we fully considered and rejected an incentive mechanism that begins at the 80 percent level of savings relative to the annual goal. Public Service's proposed increase in the financial incentive appears to be based on the premise that a higher share of net dollar savings would reduce the financial disincentive, or lost margins, caused by electric energy efficiency programs. Consistent with past decisions, we conclude that it may not be possible to calculate lost margins

[1] Net dollar savings is the same as the term "net economic benefits" as generally used by Public Service. and the other parties in this proceeding.

or to determine whether they actually occur.[2] Therefore, we find no cause to change the financial incentive structure as approved.

9. Public Service and SWEEP propose similar language to clarify paragraph 32 of the Decision. Both suggest adding a clarifying sentence stating that, starting in 2015, the Company is entitled to earn a performance incentive equal to 5 percent of the net economic benefits of its DSM programs each year once it has achieved 400 GWh of savings.

10. We agree and thus draw from Public Service's and SWEEP's proposed language to modify paragraph 32 as follows: "Starting in 2015, the Company is entitled to earn a performance incentive equal to 5 percent of the net dollar savings of its DSM programs each year once it has achieved 400 GWh."

11. Public Service also takes issue with the effective date of the revised incentive in paragraph 33 of the Decision, which "requires the revised incentive to go into effect upon Commission approval of the first DSM Plan for 2015-2016." Public Service RRR at 6. Public Service requests an effective date of the new financial incentive later in 2015 if the 2014 Plan remains in place for some period of time into calendar year 2015.

12. We agree with Public Service that paragraph 33 should be clarified. The intent of the required tariff filing is to replace the existing incentive mechanism with a new incentive mechanism to correspond with implementation of the 2015 DSM Plan. We recognize that the 2015 DSM Plan may not be implemented until after January of 2015 and the continuation of the

[2] Decision No. C08-0560, Proceeding No. 07A-420E issued June 5, 2008, paragraph 105.

existing incentive mechanism for the 2014 DSM Plan may be necessary. Therefore, we modify paragraph 33 as follows:

> Therefore, we direct Public Service to modify its electric DSMCA tariff to reflect the changes to the incentive structure adopted here to be effective beginning with the implementation of its approved 2015 DSM Plan. Public Service shall make an advice letter filing with a compliance DSMCA tariff within 90 days of the effective date of this Decision. The compliance tariff advice letter filing shall be made on not less than ten days' notice.

3. Distribution Voltage Optimization (DVO)

13. The Decision, in paragraph 55, rejected Public Service's proposal for the recovery of DVO investment costs through the Company's electric Demand-Side Management Cost Adjustment (DSMCA) rate mechanism.

14. The Company states in its application for RRR that it declines to file a stand-alone application for approval of a DVO program at this time because of the Commission's decisions on the associated cost recovery and regulatory treatment. However, Public Service also states that, if the Commission strikes paragraph 55 of the Decision, the Commission could revisit the question of cost recovery for DVO in a separately filed application. Public Service would address the costs, savings, and timing of a DVO project in the future application.

15. SWEEP also addresses paragraph 55 in its application for RRR, stating that the paragraph is unclear whether the annual spending cap beginning in 2015 includes DVO expenditures if DVO is approved in a future application. SWEEP also requests that the Commission clarify that Public Service would be entitled to collect 5 percent of the net dollar savings of the DVO investment each year and would be entitled to a performance incentive whether or not it has met 100 percent of the Company's energy savings goal.

16. We decline to modify our findings in paragraph 55 of the Decision with respect to cost recovery for the proposed DVO program. We also conclude that the Decision is clear that

DVO was not approved in this proceeding and that the associated costs are not included in the spending cap. The Decision clearly states that the savings goals for DVO, if approved in a future application, would be determined separate from the portfolio of energy efficiency goals. With respect to the associated incentive, paragraph 55 of the Decision is also clear that, if DVO were approved, Public Service may count the projected net dollar savings toward determining the performance incentive applicable to the DSM savings generally. We thus find no need to modify the Decision regarding DVO.

4. Behavioral Change Products

17. Public Service requests that the Commission allow the Company to claim savings from its Behavioral Business Pilot using the methods for deriving savings set forth in its 2014 DSM Plan approved in Proceeding No 13A-0773EG. In support of its request, Public Service cites Decision No. C11-0442 in Proceeding No. 10A-554EG issued April 26, 2011, paragraphs 94 through 99, in which the Commission directed the Company to continue to include market transformation programs in its DSM Plans and detail how it would accomplish measurement and verification of savings.

18. Public Service explains that it seeks to keep the Business Behavioral Change program as a pilot until such time that a permanent measurement methodology is submitted for Commission review. However, the Company argues it should be allowed to claim savings as proposed in the approved 2014 DSM Plan.

19. SWEEP also takes issue with paragraph 82 of the Decision, which does not allow savings from a non-residential energy feedback program to be counted toward an overall DSM savings goal. Like Public Service, SWEEP contends that the 2014 DSM Plan approved in Proceeding No. 13A-0773EG included the measurement and quantification of energy savings for

the business pilot and allowed the Company to count the savings toward goals for that program year. SWEEP requests that the Commission reconsider its policy for allowing the savings from non-residential behavioral change programs to be counted toward overall savings goals based upon the Commission's approval of the Company's 2014 DSM Plan.

20. As a general matter, the provisions in the Decision governing behavioral change programs are not intended to discourage Public Service from launching pilot programs to test new DSM programs and measures. We continue to appreciate the value that pilot programs bring to its DSM portfolio, including the gathering of information on how savings can be measured and verified.

21. Based on the record in this proceeding, where Public Service proposed that its non-residential program be expanded to a full-scale program, the Decision does not permit, at this time, savings derived from the proposed program to be counted towards the Company's overall DSM savings goal. The applications for RRR have not shown cause why we should modify our directive that the question of whether and how to count savings from a non-residential behavioral change program against savings goals be addressed in a separate future application or in the next strategic issues proceeding. Further, the approval of a comprehensive settlement as in the public interest by an Administrative Law Judge, as was the case in Proceeding No. 13A-0773E concerning the 2014 DSM Plan, is not binding on the Commission as established policy.

22. Public Service also requests a modification to paragraph 77 of the Decision with respect to the discussion of the Company's proposed savings calculation for behavioral change programs as it applies to the proposed financial incentive. Public Service seeks to clarify that one-third of the observed energy savings from behavioral change programs would be included in

the 400 GWh goal each year, and the full amount of net benefits resulting from the observed savings would be reported and used in annual incentive calculations. We grant RRR on this point and modify paragraph 77 as follows, because it describes Public Service's proposal and makes no change to the Commission's findings, conclusions, or directives:

> Specifically, the Company proposes to include one-third of the observed energy savings from behavioral change programs each year during a three-year program period in the accounting of achievement towards its annual savings goal. The full net benefits resulting from the observed energy savings each year would be reported and used in annual incentive calculations.

5. DSM Participation Tracking

23. Public Service requests that participation tracking be required for only "downstream DSM products" where the Company can account for individual participation. Public Service also requests permission to report participation rates as part of the annual DSM status reports as opposed to DSM Plan filings.

24. We approve Public Service's proposal to provide an annual total of DSM program participants and non-participants in its annual status reports filed with the Commission. However, we also require that the Company set forth proposals for tracking participants and non-participants for specific programs and measures and to provide estimates of participant and non-participant counts in its DSM Plans. While we recognize that, for certain programs or measures it may be difficult or prohibitively expensive to collect such data, it is reasonable for the Commission to consider plans for tracking participation and non-participation when programs and measures are proposed in a DSM Plan filing and when we review the cost-effectiveness and ratepayer impacts of those programs and measures.

6. Natural Gas DSM

25. SWEEP argues in its application for RRR that the definition of the Societal Cost Test (SCT) approved in paragraph 72 of the Decision is contrary to the standard definition of the

SCT used throughout the DSM industry. Specifically, SWEEP suggests that a measure of the social discount rate, such as the Treasury 20-year Constant Maturity Rate, should be used to discount all costs and benefits under the SCT.

26. The Commission fully considered SWEEP's request when adopting the Decision and concluded that the Company's weighted average cost of capital (WACC) is the appropriate rate for discounting costs such as fuel and other avoided utility costs. Therefore, we deny RRR on this point.

II. ORDER

A. The Commission Orders That:

1. The Application for Rehearing, Reargument, or Reconsideration filed by Public Service Company of Colorado (Public Service) on July 21, 2014 is granted in part, and denied in part, consistent with the discussion above. Any request made in the application but not addressed by this Decision is denied.

2. The Application for Rehearing, Reargument, or Reconsideration filed by the Southwest Energy Efficiency Project (SWEEP) on July 21, 2014 is granted in part, and denied in part, consistent with the discussion above. Any request made in the application but not addressed by this Decision is denied.

3. This Decision is effective upon its Mailed Date.

B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING August 13, 2014.

(S E A L)

ATTEST: A TRUE COPY

Doug Dean

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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PAMELA J. PATTON

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Commissioners