STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-7, SUB 831

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Petition by Duke Energy Carolinas, LLC, for Approval of Save-a-Watt Approach, Energy Efficiency Rider, and Portfolio of Energy Efficiency Programs	))))	ORDER APPROVING PROGRAM

BY THE COMMISSION: On February 22, 2012, Duke Energy Carolinas, LLC (DEC or the Company), filed a petition for approval of its Residential Smart $aver Tune and Seal Program (Program) in the above-captioned docket. Such Program includes the following added measures to the Company's Commission-approved Residential Smart $aver Program[1]: (1) attic insulation and air sealing; (2) duct sealing; (3) duct insulation; (4) central air conditioner tune up; and (5) heat pump tune up. As proposed, the Program is designed to provide residential customers with additional opportunities to lower their homes' electricity usage through maintenance and improvements to their central heating, ventilation, and air conditioning (HVAC) systems as well as the structure of their residence.

The Program would be available to owners of existing individually-metered residences, condominiums, and mobile homes served on DEC's residential rate schedules from DEC's retail distribution system. Customers participating in the Program would receive a prescribed incentive associated with successful completion of a measure by an approved contractor and submittal and approval of a completed application.

DEC requested that the Commission (1) approve the Program pursuant to Commission Rule R8-68; (2) find that the Program meets the requirements for a new EE program consistent with Commission Rule R8-69; (3) find that all costs incurred by the Company associated with the Program should be eligible for recovery through the Company's annual demand-side management/energy efficiency (DSM/EE) rider in accordance with the modified save-a-watt compensation mechanism (SAW mechanism) as approved by the Commission's Order Approving Agreement and Joint Stipulation of Settlement Subject to Certain Commission-Required Modifications and Decisions on Contested Issues (SAW Order) issued February 9, 2010 in Docket No. E-7, Sub 831; and (4) find that the Program should be eligible for recovery of net lost revenues.

[1] The Program, if approved, would become part of DEC's Residential Smart $aver Program which was approved by Commission Order issued February 26, 2009, in Docket No. E-7, Sub 831. Data filed by DEC in the present application only involves the added measures proposed for approval and not the entire Residential Smart $aver Program with the proposed measures incorporated.

On March 23, 2012, the Public Staff – North Carolina Utilities Commission (Public Staff) filed its response to DEC's petition for approval of the Program. In its response, the Public Staff stated that it had reviewed the application with respect to: (1) G.S. 62-133.9; (2) Commission Rule R8-68; (3) the Agreement and Joint Stipulation of Settlement made by and between DEC, the Public Staff, the Environmental Defense Fund (EDF), Natural Resources Defense Council (NRDC), the Southern Alliance for Clean Energy (SACE), and the Southern Environmental Law Center (SELC) filed June 12, 2009, in Docket No. E-7, Sub 831; (4) the SAW Order issued February 9, 2010; (5) the Commission's Order Resolving Certain Issues, Requesting Information on Unsettled Matters, and Allowing Proposed Rider to Become Effective Subject to Refund issued February 26, 2009 in Docket No. E-7, Sub 831 (February 26, 2009 Order); and (6) the flexibility guidelines filed February 6, 2012, in Docket No. E-7, Sub 831, by the Public Staff, DEC, and SACE (Flexibility Guidelines).

Further, the Public Staff stated that its investigation involved meeting with DEC representatives, serving data requests on DEC regarding the Program, and reviewing the Company's responses. Based upon its investigation, the Public Staff believes that the Program is consistent with G.S. 62-133.9, Commission Rule R8-68(c), and the SAW mechanism. The Public Staff commented that it appears that the Program should be cost-effective under the Total Resource Cost (TRC) Test, the Participant Test, and the Utility Cost Test (UCT), with either DEC's proposed initial or maximum participant incentives. The Public Staff opined that the proposed Program has the potential to encourage energy efficiency, is consistent with DEC's Integrated Resource Plan (IRP), and is in the public interest.

In regard to the amount of the participant incentive, the Public Staff explained that under DEC's proposed tariff, DEC would be allowed flexibility to set the participant incentive up to a maximum per measure, as well as to modify the incentive distribution channels.[2] In response to a Public Staff data request, DEC indicated that it would initially offer participant incentives less than the maximum participant incentives allowed in the tariff. DEC proposed to offer the following initial and maximum participant incentives per measure:

Measure	Initial Incentive	Maximum Incentive
• Attic insulation and sealing	$250	$400
• Duct sealing	$100	$200
• Duct insulation	$ 75	$350
• Central AC tune up	$ 50	$ 60
• Heat pump tune up	$ 50	$125

The Public Staff stated that pursuant to the Commission's February 26, 2009 Order, any change in the amount of a participant incentive for a measure requires Commission

[2] In its petition, DEC stated that the primary method of distribution would be via a DEC rebate check paid directly to the customer upon approval of an application; however, other possible methods of incentive distribution would include, among others, trade-ally rebates, gift cards, and prepaid credit cards.

approval. However, the Public Staff explained that the Flexibility Guidelines, among other things, proposed that changes in the participant incentive that are consistent with the tariff and do not result in the erosion of the TRC test ratio to less than 1.05 would not require Commission preapproval.[3] The Public Staff further explained that of those changes not requiring preapproval in the proposed Flexibility Guidelines, advance notice of at least 45 days would be required for those changes that result in (1) the forward-looking present value of program costs increasing by more than 20%; (2) the forward-looking program-level TRC test ratio decreasing by more than 20%; (3) the projected forward-looking net present value avoided cost savings increasing by more than 20%; or (4) the forward-looking program-level TRC increasing by more than 20%. The Public Staff stated that any other changes in participant incentives would only be required to be reported after the fact in a quarterly report. The Public Staff noted that all changes are ultimately at the discretion of the Commission to approve or disapprove.

In regard to the DEC's proposal to modify the incentive distribution channels, the Public Staff commented that both the February 26, 2009 Order and the proposed Flexibility Guidelines require Commission approval if the change is inconsistent with the tariff language. The Public Staff explained that depending on the specific change in incentive distribution channels and the impact of the change, the February 26, 2009 Order may require Commission approval and that under the proposed Flexibility Guidelines, the impact of the change on the TRC ratio, program costs, and avoided cost savings would determine whether Commission approval, advance notice, or no notice would be required.

With respect to evaluation, measurement, and verification (EM&V), DEC proposed to use an independent third-party consultant to implement its EM&V plan. According to the Public Staff, DEC's EM&V plan will include an assessment of program impacts using weather-adjusted billing data and customer survey data collected from participants of the Program. The Public Staff explained that DEC will also gather the information necessary to calculate the influence of free ridership and spillover on net savings. Such information will be used to determine the accuracy of the estimates of program impacts and participation sufficient to verify the net savings for the Program's measures. The Public Staff stated that DEC has provided a schedule of the EM&V activities and mileposts associated with the Program, including the timeframes for sampling, surveying, analysis, and reporting. The Public Staff believes that DEC's proposed EM&V plan and schedule are reasonable. However, the Public Staff recommended that DEC, in its first EM&V report, perform sufficient analysis to confirm the appropriateness of the baseline measures initially used to calculate the estimated program impacts.

Based upon its review of DEC's petition and the Company's data request responses, the Public Staff recommended that the Program be approved as a new EE program pursuant to Commission Rule R8-68 and that the Program should be

[3] See February 6, 2012 filing, in Docket No. E-7, Sub 831, by the Public Staff, DEC, and SACE for additional information regarding the proposed Flexibility Guidelines. Such proposed Flexibility Guidelines were approved by Commission Order issued July 16, 2012.

eligible for consideration of recovery of the avoided cost revenue requirement and net lost revenues related to the Program in accordance with the SAW mechanism. With respect to the recovery of net lost revenues, the Public Staff stated that in accordance with Paragraph G of the SAW mechanism, DEC should be allowed recovery of up to 36 months of net lost revenues for actual energy savings that have been measured and verified through third-party EM&V.[4] Consequently, the Public Staff recommended that the Commission determine the appropriate recovery of the avoided cost percentage revenue requirement and net lost revenues related to the Program in DEC's annual DSM/EE rider proceeding consistent with G.S. 62-133.9, Commission Rule R8-69, and the SAW mechanism. The Public Staff also requested that the Commission require DEC to file its proposed Program tariff (Leaf 159) with the effective date that would be within 10 days following the date of a Commission order approving the Program.

On March 23, 2012, EDF, NRDC, SACE, and SELC, (collectively, the Environmental Intervenors) filed comments regarding DEC's proposal to add EE measures to the Company's Residential Smart $aver Program. Based upon their review of DEC's petition and communications with DEC representatives and the Public Staff, the Environmental Intervenors stated that they generally support DEC's proposed changes but had several concerns regarding certain elements of the filing. Specifically, the Environmental Intervenors expressed the following concerns: (1) impact and participation rates of the new measures are not apparent in the petition; (2) program

[4] Paragraph G of the SAW mechanism states, in pertinent part, as follows:

> Net lost revenues mean revenue losses, net of marginal costs avoided at the time of the lost kilowatt-hour sale(s), incurred by the Company's public utility operations as the result of a new energy efficiency measure. Net lost revenues shall also be net of any increases in revenues resulting from any activity by the Company's public utility operation that cause a customer to increase demand or energy consumption, whether or not that activity has been approved pursuant to R8-68. Programs or measures with the primary purpose of promoting general awareness and education of energy efficiency as well as research and development activities are ineligible for the recovery of net lost revenues. Pilot programs or measures are also ineligible for the recovery of net lost revenues, unless the Commission approves the Company's specific request that a pilot program or measure be eligible for the recovery of net lost revenues when the Company seeks approval of that pilot program or measure. Utility activities shall be closely monitored by the Company to determine if they are causing a customer to increase demand or consumption, and the Company shall identify and keep track of all of its activities that cause customers to increase demand or consumption, whether or not those activities are associated with demand-side management or energy efficiency programs, as provided in the Settlement Agreement, so that they may be evaluated by the parties and the Commission for possible confirmation as "found revenues." When authorized by Commission Rule R8-69, and unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE rider proceeding, net lost revenues shall be recovered for 36 months for each vintage year, except that recovery of net lost revenue will end upon Commission approval of (1) an alternative recovery mechanism, or (2) the implementation of new rates in a general rate case or comparable proceeding to the extent that rates set in a rate case or comparable proceeding are set to explicitly or implicitly recover those net lost revenues.

participation levels are projected to decline each year, without a clear explanation; (3) participant incentive levels are aligned with similar programs in North Carolina, but additional measures could be offered; and (4) it is difficult to compare the cost-effectiveness of the existing Residential Smart $aver Program with that of the proposed modified Program.

The Environmental Intervenors recommended that DEC take the following actions to address their concerns: (1) provide kilowatt-hour (kWh) savings and participation results by measure for program modifications; (2) explain why a 75% decrease in program participation is projected after four years; (3) consider and propose additional EE measures for existing residential customers; and (4) provide cost-effectiveness test scores for EE programs both before and after the program modifications on a consistent basis. In regard to their recommendation concerning test scores related to before and after program modifications, the Environmental Intervenors pointed out that according to the Flexibility Guidelines, as previously proposed by the Public Staff, DEC, and SACE, DEC has agreed to provide such cost-effectiveness test scores.

No other parties intervened in this docket.[5]

WHEREUPON, the Commission reaches the following

CONCLUSIONS

After careful consideration of DEC's proposal and the comments filed in this proceeding, the Commission finds and concludes that the Program should be approved and that such Program should be eligible for recovery of net lost revenues.

It appears to the Commission that the Program, as proposed, has the potential to encourage EE by providing residential customers with additional opportunities to lower their homes' electricity usage through maintenance and improvements to their central heating, ventilation, and air conditioning systems as well as the structure of their residences. The Commission also recognizes that the proposed Program appears to be cost-effective under the TRC, UCT, and Participant tests[6] under either the proposed

[5] On March 16, 2012, a letter dated March 8, 2012 from Roger L. Stancil, Town Manager for the Town of Chapel Hill, was filed with the Commission. Mr. Stancil stated that the Town of Chapel Hill recommends approval of DEC's proposal to expand the Residential Smart $aver Program. On March 16, 2012, a letter dated February 29, 2012 from Mark Bashista on behalf of Clean Energy Solutions, Inc. was filed with the Commission. Mr. Bashista stated that Clean Energy Solutions, Inc. supports DEC's proposed expansion of the Residential Smart Energy $aver Program.

[6] Under the proposed initial incentives, the benefit/cost ratios are as follows: TRC test−1.91; UCT test−2.25; and Participant test−4.37. Under the proposed maximum incentives, the benefit/cost ratios are as follows: TRC test−1.91; UCT test−1.95; and Participant test−4.58.

initial or maximum participant incentives. Furthermore, although the Ratepayer Impact Measure (RIM) benefit/cost ratios under the initial and maximum participant incentives are 0.76 and 0.72, respectively, the Commission is of the opinion that, overall, the Program is in the public interest.

In regard to the amount of the participant incentive, the Commission recognizes that the level of incentive necessary to entice DEC's customers to participate in the Program is uncertain and, therefore DEC should have some flexibility to make adjustments to the level of the participant's incentive for this specific program to maximize its results. Further, the Commission understands that the incentives will be awarded on a consistent and nondiscriminatory basis to eligible program participants who have successfully implemented a qualifying measure and submitted a completed application in compliance with program requirements. Consequently, the Commission finds and concludes that DEC's tariff should include DEC's proposed initial and maximum participant incentives per measure as set forth herein to maximize participation in the Program.

With regard to DEC's request for flexibility to change the incentive distribution channel to allow the Company to modify the type of incentive to appeal to a diverse set of customers, the Commission is of the opinion that such flexibility should allow DEC to maximize participation in the Program. The Commission understands that the Company's primary method of distribution would be via a DEC rebate check paid directly to the customer upon approval of an application; however, other possible methods of incentive distribution would include, among others, trade-ally rebates, gift cards, and prepaid credit cards. The Commission finds and concludes that DEC's tariff should include DEC's proposed incentive distribution channels.

In accordance with the Flexibility Guidelines approved by Commission Order issued July 16, 2012, in Docket No. E-7, Sub 831, DEC will be required to provide the Commission with notification of all changes to the amount of the participant incentive and the method of distribution.

With respect to the recommendation of the Environmental Intervenors that DEC provide cost-effectiveness test scores for EE programs both before and after the program modifications on a consistent basis, the Commission notes that this proposal has since been adopted by the Commission in its Order Adopting Program Flexibility Guidelines issued on July 16, 2012. In regard to the other aforementioned recommendations suggested by the Environmental Intervenors, the Commission encourages the Environmental Intervenors to follow up with DEC representatives regarding such matters such that DEC would have an opportunity to respond during the upcoming investigation of DEC's 2013 DSM/EE cost recovery rider proceeding.

Further, the Commission is of the opinion that the appropriate recovery of the avoided cost percentage revenue requirement and net lost revenues related to the program should be determined in DEC's annual DSM/EE rider proceeding consistent with G.S. 62-133.9, Commission Rule R8-69, and the SAW mechanism. The Commission finds and concludes that DEC, in its first EM&V report for the Program, should perform sufficient analysis to confirm the appropriateness of the baseline measures initially used to calculate the estimated program impacts.

IT IS, THEREFORE, ORDERED as follows:

1. That the Residential Smart $aver Tune and Seal Program shall be, and hereby is, approved as a new EE program pursuant to Commission Rule R8-68.

2. That all reasonable and prudent costs incurred by DEC associated with the Program shall be eligible for recovery through the Company's annual DSM/EE rider in accordance with G.S. 62-133.9, Commission Rule R8-69, and the approved SAW mechanism.

3. That the Program shall be eligible for recovery of net lost revenues in accordance with the parameters set forth in Paragraph G of the SAW mechanism.

4. That DEC's Program tariff (Leaf 159) shall include the initial and maximum participant incentives per measure as set forth herein. All participant incentives shall be awarded on a consistent and nondiscriminatory basis. That DEC's tariff shall include the incentive distribution channels discussed herein and set forth in the Company's petition. In accordance with the Flexibility Guidelines approved by the Commission on July 16, 2012, in Docket No. E-7, Sub 831, DEC shall provide the Commission with notification of all changes to the amount of the participant incentive and the method of distribution.

5. That DEC shall file its proposed Program tariff (Leaf 159) with the effective date to be within 10 days following the date of this Order.

6. That DEC shall perform sufficient analysis in its first EM&V report for the Program to confirm the appropriateness of the baseline measures initially used to calculate the estimated program impacts.

ISSUED BY ORDER OF THE COMMISSION.

This the 28th day of August, 2012.

NORTH CAROLINA UTILITIES COMMISSION

Gail L. Mount

Gail L. Mount, Chief Clerk

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Chairman Edward S. Finley, Jr., did not participate.