

**STATE OF NORTH CAROLINA  
UTILITIES COMMISSION  
RALEIGH**

DOCKET NO. E-2, SUB 936

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Request by Duke Energy Progress, LLC,	)	ORDER ON APPROVING
for Approval of Modifications to Residential	)	PROGRAM MODIFICATIONS
Home Energy Improvement Program	)	

BY THE COMMISSION: On July 20, 2017, Duke Energy Progress, LLC (DEP or Company), filed an application seeking approval of modifications to its Residential Home Energy Improvement Program (Program). The proposed modifications are intended to increase the cost-effectiveness of the Program. The Company is also proposing to align the structure, measures, and incentives in the Program with Duke Energy Carolinas, LLC's (DEC) Residential Smart Saver HVAC Energy Efficiency (EE) Program, and rename the Program as "Residential Service – Smart Saver Energy Efficiency Program (RSSS)."

DEP's proposals include modifications to the incentives and removal of measures that are not cost-effective. The modifications to the incentives proposed by DEP will: (1) eliminate the existing tiered incentive structure for air conditioning and heat pump equipment; (2) set a maximum incentive amount for certain individual measures and groups of related measures; (3) remove measures related to HVAC tune up and room air conditioners; and (4) remove the incentives for central air conditioners and heat pumps with a SEER (seasonal energy efficiency ratio) of less than 15.

With the exception of these removed measures, the RSSS will incorporate the other EE measures that are currently included in the Program. DEP's proposed tariff groups together certain measures that are inter-related. For example, the HVAC equipment measures offered in the new RSSS will include central air conditioners, heat pumps, quality equipment installation, and smart thermostats. Thermal boundary measures offered will include attic insulation and air sealing in attic spaces, exterior walls and subfloors. HVAC duct improvements offered will include sealing, repairing, and replacing ductwork to improve air flow. No changes are proposed to the pool pump and heat pump water heater measures currently in the Program.

DEP's application indicates that with these proposed modifications, the newly named RSSS would be cost-effective on a going-forward basis under the Total Resource Cost Test (TRC), the Utility Cost Test (UCT), and the Participant Test.

DEP's application requests that the Commission: (1) approve the RSSS; (2) find that the RSSS is a "new" EE program pursuant to Commission Rule R8-69; (3) find that the cost of the RSSS is eligible for cost recovery; (4) approve the proposed utility incentives for inclusion in the annual DSM/EE rider.

To date, no other party has intervened or filed comments in this docket regarding the proposed modifications to the Program.

The Public Staff presented this matter at the Commission's Regular Staff Conference on September 11, 2017. The Public Staff stated that it had reviewed DEP's proposed modifications, and that the RSSS appeared to be cost-effective. The Public Staff also offered comments regarding the cost-effectiveness of the Program and RSSS, the modifications to the measures offered under the Program and RSSS, the incentive structure, and the proposed tariff for the RSSS. More specifically, the Public Staff stated that:

1. The Program was originally approved as a new EE program in the Commission's *Order Approving Program*, issued April 30, 2009, in Docket No. E-2, Sub 936. The Program was subsequently modified January 31, 2012 and February 9, 2016, by the Company to modify measures and maintain cost-effectiveness. DEP also added a referral channel to guide interested customers to one or more DEP-approved HVAC contractors who have paid DEP a fee to be on the referral list.

2. Many of the same measures that were part of the Program will continue to be offered, including incentives for measures installed outside of the referral channel. Our review of the modeling information provided to the Public Staff supporting the Company's proposed modifications, continues to suggest that measures installed outside the referral channel are not cost-effective.

3. DEP indicated to the Public Staff that will continue to provide incentives for measures installed outside of the referral channel because of concerns that converting the RSSS to a "referral only" program would create a "pay for play" environment. DEP further indicated to the Public Staff that it believes that the proposed modifications to the RSSS will increase participation in the referral-based delivery channel.

4. DEP has indicated to the Public Staff that it expects that by removing several measures that are not cost-effective, and incorporating other measures that are cost-effective, its proposed modifications to the RSSS will improve the overall cost-effectiveness of the RSSS.

5. DEP further indicated to the Public Staff that the Company continues to observe a decrease in the out-of-pocket participant costs, stating that 2017 had seen an average decrease of 7%.

6. The TRC in the application is 1.23, approximately 17% greater than the TRC of 1.05 filed by the Company in a letter on March 1, 2017.<sup>1</sup>

7. DEP's proposed modifications would result in the RSSS becoming substantially similar to DEC's Residential Smart Saver HVAC Energy Efficiency Program.

8. DEP's proposed modifications to the RSSS would also allow the Company greater flexibility in how it pays incentives to customers. The Company's proposal allows the Company to pay incentives up to a maximum amount commensurate with the measures installed. The Public Staff believes this structure is consistent with the flexibility guidelines that were included as Attachment A to the Company's DSM/EE cost recovery mechanism approved January 20, 2015 in Docket No. E-2, Sub 931. Any change to the maximum incentive amounts would require Commission approval.

The Public Staff stated that the RSSS program overall appeared to be cost-effective. However, the Public Staff also stated its concern that measures offered through the non-referral channel are not cost-effective. While the participant costs continue to decline, the costs have not declined enough to make the non-referral channel measures cost-effective. The Public Staff also acknowledged the Company's concerns related to the perception of discrimination if the RSSS is considered a "pay for play" program by HVAC contractors. As long as the Company continues to offer measures through the non-referral channel, RSSS will continue to be marginally cost-effective.

The Public Staff concluded by recommending that the Commission find that the RSSS continues to meet the requirements of a new EE program pursuant to Commission Rule R8-69, and determine the appropriate recovery of program costs, net lost revenues, and performance incentives associated with the RSSS in the annual DSM/EE rider proceeding consistent with G.S. 62-133.9, Commission Rule R8-69, and the current DSM/EE cost recovery mechanism. The Public Staff also recommended that DEP report in its annual DSM/EE rider proceeding, the test year incremental participation for each measure using both delivery channels.

Based upon the foregoing, the Commission finds and concludes that the proposed modifications to the Program should be approved as recommended by the Public Staff, and that the appropriate ratemaking treatment for the Residential Service – Smart Saver Energy Efficiency Program including program costs, net lost revenues, and performance incentives, should be determined in DEP's annual cost recovery rider approved pursuant to Commission Rule R8-69.

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<sup>1</sup> The calculations for both the March 2017 filing and the Application used the 2014 approved avoided capacity costs from Docket No. E-100, Sub 140 and the avoided energy costs from the Company's 2015 Integrated Resource Plan.

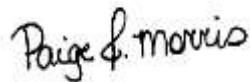
IT IS, THEREFORE, ORDERED as follows:

1. That the Residential Home Energy Improvement Program will be replaced with the "Residential Service – Smart \$aver Energy Efficiency Program."
2. That the Residential Service – Smart \$aver Energy Efficiency Program continues to meet the requirements of a "new" energy efficiency program, and that proposed modifications included in DEP's Application now applicable to the Residential Service – Smart \$aver Energy Efficiency Program are hereby approved pursuant to Commission Rule R8-68;
3. That the Commission shall determine the appropriate ratemaking treatment for the Residential Service – Smart \$aver Energy Efficiency Program, including program costs, net lost revenues, and portfolio performance incentives, in DEP's annual cost recovery rider, in accordance with G.S. 62-133.9, Commission Rule R8-69, and the Mechanism;
4. That in the annual DSM/EE rider proceeding, DEP shall provide test year incremental participation for each measure using delivery by both channels; and,
5. That DEP shall file with the Commission, within 10 days following the date of this order, a revised tariff showing the effective date of the tariff.

ISSUED BY ORDER OF THE COMMISSION.

This the 11<sup>th</sup> day of September, 2017.

NORTH CAROLINA UTILITIES COMMISSION



Paige J. Morris, Deputy Clerk

Commissioner Lyons Gray did not participate in this decision.