



2022 STRATEGIC ISSUES

PSCo DSM Regulatory and Product Management

April 29, 2022

Meeting Agenda

Update on Strategic Issues

- Goal Setting Update
- Incentive Structure Update
- Non-Energy Benefits Update
- Open Discussion

GOAL SETTING UPDATE

Potential Study findings, trends, and goal setting strategy



Electric

- Potential Study provided three scenarios
 - Calibrated – expects business as usual portfolio
 - Incentive optimized – increases rebates for measures where rebate < avoided costs
 - Maximum scenario – maximum savings achievable when removing all barriers
- Incentive optimized 2021-2030 cumulative net savings ~ 3,600 GWh
- Compares favorably to 2016 study despite significant increase in saturation of key technologies (e.g. lighting, motors)
- Declining avoided costs cause a decline in incremental annual achievable potential over the planning period

Gas

- Addition of Social Cost of Carbon and Social Cost of Methane dramatically increases achievable potential
- All scenarios exceed current annual achievements for EE
- Beneficial electrification and energy efficiency combined Natural Gas goal exceeds incentive-optimized (mid) scenario.
 - ~ 11.5 million Dth over 2024-2030
 - Separating BE is difficult due to lack of reference programs to model adoption

INCENTIVE STRUCTURE

Holistic Approach



Current Incentive Approach

Limited to just Electric and Gas Energy Efficiency

- Residential DR benefits included, but rest of DR is excluded

Different incentive mechanisms used for Electric and Gas

Main Incentive Determinants:

- Portfolio Energy Savings (kWh or Dth)
- Program Lifetime Net Benefit
- Increased savings (greater than baseline) or net benefits increase incentive award
- Shared savings mechanism – incentive award based on fraction of net benefits

Incentive Mechanism Concept

Consolidates E&G across Energy Efficiency, Beneficial Electrification, and Demand Management

Retains shared saving mechanism approach

- % of Net Benefits award increase as achievement goals reached and surpassed
- Includes Emission Benefits (Social Cost of Carbon and Methane)

Main Incentive Determinants:

- Portfolio Energy Savings (kWh or Dth)
- Cost-effective achievement of goals
- **Portfolio Lifetime Carbon and Methane Savings**
 - **Dynamic award mechanism based on emissions savings**
- **Equity Adder for Income Qualified Achievement?**

NON-ENERGY BENEFITS

Identification and Quantification



Historic Approach

Percent adder approach due to difficulty quantifying benefits identified in statute

Excluded from incentive calculation

Proceeding No. 13A-0686EG Decision No. C14-0731 (2015-2018)

- 25% adder applied to Income-Qualified
- 10% adder for all other electric products
- 5% adder for all other natural gas products

Proceeding No. 17A-0462EG (2019-2023)

- 50% adder applied to Income-Qualified
- 20% adder applied to all other measures and products

Current Considerations

Preference to maintain adder approach

- More rigorous evaluation is expensive with debatable results

Explicit values for Social Cost of Carbon and Methane captured outside of NEBs

- May warrant re-evaluation of % adders

Your Thoughts

What are key non-energy benefits to capture?

- Indoor air pollutants
- Ozone contributors
- What else?

Alternative methodologies?

Best practices from other jurisdictions?

OPEN DISCUSSION

Your Input



Equity

Proceeding 22M-0171 to implement SB 21-272

- Rules focused on providing equity, minimizing impacts, and prioritizing benefits for disproportionately impacted communities

Shifting Metrics

- Change focus from customer classifications to equalizing the energy burden
- CDPHE developing identification tools for disproportionately impacted communities

Other avenues to improve equity considerations?

Additional Feedback & Next Steps

Feedback Round-Robin

- What does your organization hope to see in this proceeding?
- What are critical issues/topics for your organization?

DSM Roundtable May 11, 2022

- Demand Response Study Findings



APPENDIX A

Current Incentive Mechanisms



Current Incentive Mechanism – Electric

Combined Performance Incentive and Direct Lost Margin Recovery

Energy Efficiency Incentive – 2017 SI:

- 40% of incremental net benefits > 280GWh for achievement between 400 GWh and 550 GWh
- No incentive earned above 550 GWh or below 400 GWh
- Excluded Non-Energy Benefits

Disincentive Offset – C&I

- \$1.5m at 400 GWh and \$1.5m at 500 GWh

Incentive Cap:

- The total earning from incentives and disincentives to be capped at \$18 million

Electric DR Incentive:

- **Denied**

Current Incentive Mechanism – Natural Gas

Combined Performance Incentive and Direct Lost Margin Recovery

Energy Efficiency Incentive – Gas Rules:

- Energy Factor: 0.5% for each % achievement above 80% of goal (Ex. 100% of goal = 10%)
- Savings Factor: Dth/\$1M Plan divided by Dth/\$1M Actual
 - Rewards more cost-effective achievement
- No incentive below 80% of goal

Acknowledgment of Lost Revenue

- Recovery of lost revenue from first year savings

Incentive Cap:

- Lesser of 20% of Net Economic Benefits or 25% of Portfolio Expenditure