**Proceeding No. 22A-0315EG**

**Public Service Company of Colorado 2023 Demand-Side Management and Beneficial Electrification Plan**

**Draft Revisions included in this document by: CEO, City and County of Denver, City of Boulder, EEBC, EOC, SWEEP, and WRA**

**Settlement Term Sheet**

November 8 , 2022

The intent of this Settlement Term Sheet is to set forth settlement parameters in Public Service Company of Colorado’s (“Public Service” or the “Company”) 2023 Demand-Side Management and Beneficial Electrification Plan (“2023 DSM & BE Plan” or “Plan”) proceeding, Proceeding No. 22A-0315EG. This document is subject to agreement by the parties and upon agreement in principle will be developed into a formal written Settlement Agreement for final execution.

# 2023 DSM & BE Plan

## The Proposed Electric and Natural Gas Budgets and the Associated Energy Savings Targets

* The Settling Parties agree that the Commission should approve the Company's 2023 DSM & BE Plan as filed, subject to the modifications contained in this Settlement Term Sheet.
* The Settling Parties agree that the Commission should approve the Company’s proposed electric and gas energy efficiency budgets of $92.3 million and $[23.5] million, respectively.
* The Settling Parties agree that the Commission should approve the Company’s proposed Demand Response (“DR”) budget of $24.6 million.
* The Settling Parties agree that the Commission should approve the Company’s proposed energy savings target of 491 gigawatt hours (“GWh”) of electric energy savings and 874,462 dekatherms (“Dth”) of natural gas savings. Public Service agrees to make best efforts to meet or exceed the 500 GWh electric energy savings target within the approved budget if possible.

## The Proposed Electric Demand Reduction Target

* The Settling Parties agree that the Commission should approve the Company’s proposed target of 100 MW of electric demand reduction from electric energy efficiency.

## The Proposed Electric Demand Response Target

* The Settling Parties agree that the Commission should approve the Company’s proposed electric demand response target of 105 MW of demand response capacity.

## The Products, Measures, and Pilots that Comprise the 2023 DSM & BE Plan

* The Settling Parties agree that the Commission should approve the Company’s proposed products, measures, and pilots, and their associated budgets, that compose the 2023 DSM & BE Plan as described in detail in the Direct Testimony of Public Service Witness Mark Schoenheider and in Attachment NCM-1 to the Direct Testimony of Public Service witness Nick Mark, including and subject to the following modifications:
  + Seven combined electric/gas education and market transformation products and the associated combined budget of $5.4 million;
  + Four indirect planning and research services and the associated combined electric/gas budget of $7.9 million; and
  + Continuation of the Company’s existing geo-targeting pilot and the associated budget of $376,617.

Portfolio-wide Modifications

* + If DSM and/or BE incentives or tax credits become available to Public Service customers during the 2023 DSM and BE Plan year, Public Service will provide contractors and customers with education on the availability of and terms associated with Inflation Reduction Act (“IRA”) incentives and/or tax credits implemented during the 2023 program year.
  + Public Service will provide two live, in-person trainings on BE strategies to Residential and Commercial contractors and/or distributors in 2023.
  + In the interests of promoting transparency and accessibility for third-party DSM provider opportunities with Public Service, the Company commits to communicating upcoming requests for proposal (“RFP”) during its quarterly roundtables; posting information about upcoming RFPs on website as well as providing links with the relevant information about participating in the RFP; and notifying interested parties of RFPs through its DSM distribution email list when the RFP opens. Public Service further commits to, as part of the RFP process, clearly identifying the requisite criteria on which participants will be evaluated for each RFP through its RFP documents.
  + The Company agrees to request that contractors who install or convert customer heating systems document the pre-existing heating system (if any) and the type of heat that will likely be used on very cold days. This request will be optional for customers and the Company agrees to report annually, in a future roundtable, on the results of this request and incorporate any statistically significant findings into its program design.
  + The Company agrees to estimate greenhouse gas emissions on both a net and incremental basis from BE in its 2023 DSM & BE Annual Status Report, based on the deemed per-measure savings assumptions used in developing the 2023 DSM & BE Plan with emissions presented on both a lifetime and first-year basis.
  + The Company agrees to adopt 2022 bonus incentive levels that are available throughout the Company’s service territory year-round in 2023, in all electric EE product categories and for all measures with bonus incentives in 2022.

Residential Energy Efficiency Program

* + Public Service will increase the rebates for both all electric homes or near all-electric homes that achieve at least 80% of their heating from electricity in the Energy Star® New Homes product to at least $15,000.
  + Public Service will add an additional bonus rebate of at least $500 for customers who install major weatherization measures (without necessarily requiring an energy audit) along with a heat pump measure within the Whole Home Efficiency program.
  + Public Service will increase its rebates associated with electric heat pumps, including ground source heat pumps, by at least 25% across its service territory and throughout its DSM/BE programs portfolio while also increasing marketing of heat pumps.
  + Public Service will develop at least three separate geographically targeted marketing campaigns during the 2023 DSM and BE Plan . The campaigns will include installations and outreach/educational blitzes to install heat pumps and/or weatherization in a neighborhood with a high density of homes with electric resistance heating, propane or other delivered fuels, and/or constrained parts of the gas system .
  + If DSM and/or BE IRA incentives are implemented such that they become available to Public Service customers during program year 2023, the Company agrees to review its programmatic rebates and incentives and discuss with stakeholders at a future DSM Roundtable whether adjustments to those rebates and incentives are appropriate. If appropriate, the Company will post a 60-Day Notice modifying applicable rebates and incentives.
  + The Company agrees to research, in consultation and dialogue with EEBC and other interested stakeholders, EER requirements for variable capacity heat pumps, and remove or modify the minimum EER requirements for Variable Capacity Heat Pumps if doing so will increase natural gas savings without increasing peak power demand in the summer, with a report on this matter by April 1, 2023 including a detailed explanation of PSCo’s analysis and rationale for its determination.
  + The Company agrees to offer smart thermostats in the Home Energy Squad program at a cost that is equal to or lower than the upfront incentive given for participation in the AC Rewards program.
  + The Company agrees to drop big box stores from its Residential Lighting product no later than April 1, 2023. The Company can maintain in-store buydowns in local hardware stores, grocery stores and the like in IQ and DI communities, and continue giveaways of LED lamps in the Home Energy Squad, school kits, at food pantries and at promotional events, for the entire year.
  + The Company agrees to add a midstream incentive approach (without eliminating customer incentives) for heat pump water heaters (HPWHs), engaging distributors and contractors to a much greater degree and increasing HPWH stocking as a result.
  + The Company agrees to end rebates for gas water heaters for market rate programs.

The Company agrees to research with interested stakeholders, the potential to phase out rebates for traditional air conditioners so as to allocate additional resources towards the adoption of heat pumps for its 2024-2025 DSM and BE Plan.

* + The Company agrees to add an incentive for advanced duct sealing in the insulation and air sealing as well as ENERGY STAR New Homes and Whole Home Efficiency products, with an incentive level of 30% of installed cost up to a maximum rebate of $750 for advanced duct sealing where supply-side duct leakage is reduced by at least 80%.

Income Qualified/DI Energy Efficiency Program

* + Public Service will implement a new pilot within the Low Income (i.e. Income Qualified or “IQ”) program to test a geographic prequalification approach to Disproportionately Impacted (“DI”) neighborhood weatherization. The Company will post a 60-Day Notice no later than the end of the second quarter of 2023 detailing the methodology by which it will prequalify customers. The budget for this pilot will be in addition to the IQ budget presented in the DSM Plan as filed.
  + The Company commits to discussing its IQ/DI Community outreach and engagement efforts as part of each DSM quarterly roundtable in 2023.
  + The Company will screen Income Qualified Program participating households for auto-enrollment in the Company’s Electric and Gas Affordability Programs to the extent feasible .

Business Energy Efficiency Program

* + The Company commits to continue actively studying prescriptive BE measures for commercial customers. The Company will file a 60-day notice to add prescriptive measures for equipment and use cases that it deems to be sufficiently repeatable by April 1, 2023. At a minimum these are to include:
    - Prescriptive BE rebates for commercial customers based on measures that are identical to the 2023 residential BE measures, including but not limited to ducted and ductless air source heat pumps and heat pump water heaters.

An incentive program for dual-fuel and/or heat pump rooftop units with incentives equal to or greater than those incentives for gas fired midstream Rooftop Unit products, or at $250/ton, whichever is higher.

* + The Company commits to expand the promotion of BE measures within the Business Energy Assessment product.
  + In consultation with EEBC and other interested stakeholders, the Company will review and adjust wattage requirements, on an annual basis, for Business lighting products. Any modifications, if cost-effective, to these requirements will be made through a 60-Day Notice.
  + The Company agrees to increase incentives for lighting controls, including standard controls, exterior lighting controls and more innovative networked lighting controls, with a target of incentives equal to 30% of installed project cost.

Demand Response Program

* + The Company agrees to conduct an RFP in the first half of 2023 to solicit ideas from vendors for potential new DR offerings that achieve peak demand reduction by residential customers with AMI meters through a pay-for-performance, technology neutral approach. Assuming a robust set of responses, the Company agrees to design one or more products or pilot products that would be included in the 2024-2025 DSM plan. Emphasize performance-based, technology neutral approaches and align performance incentives with avoided costs.
  + The Company agrees to consider, in consultation with stakeholders, implementing a pilot program that tests the feasibility of carrying out demand response along with networked lighting controls, reporting on the results of this examination to the DSM Roundtable no later than the third quarter of 2023. If this strategy shows promise, the Company agrees to move forward with the pilot program in the second half of the year.

Outreach, Engagement, Education

* + The Company agrees to cross promote its DSM and BE programs and incentives, to the extent practicable, when conducting outreach, engagement, and education for other retail customer programs.
  + The Company will file a supplemental outreach and engagement plan within 30 days of a final Commission decision detailing planned or anticipated outreach, engagement, and education opportunities or events conducted under the 2023 DSM and BE Plan, including items in this Settlement, for customers in Income Qualified households and DI communities.

# Cost-Recovery for 2023 DSM & BE Plans through Gas and Electric DSMCAs

* The Settling Parties agree that the Commission should approve for this 2023 DSM Plan the Company’s recovery of its costs for the 2023 DSM & BE Plan through the existing electric and gas Demand Side Management Cost Adjustments (“DSMCA”) as appropriate.
* The Settling Parties agree that the Commission should approve the Company’s current practice of allocating BE measure costs to the gas DSMCA for the 2023 Plan year.

# EnCompass Modeling

## EnCompass Modeling in Lieu of PLEXOS for DSM Modeling

* The Settling Parties agree that the Commission should authorize Public Service to transition to EnCompass for purposes of its DSM modeling.

## Marginal Energy Cost Output from the EnCompass Modeling

* The Settling Parties agree that the Commission should approve the marginal energy cost outputs used to determine the avoided cost of energy in the Company’s EnCompass modeling contained in the Direct Testimony of Public Service witness Jeremy Peterson, Highly Confidential Attachments JAP-1HC and JAP-2HC.

## The Avoided Cost of Capacity and Avoided Transmission and Distribution Cost

* The Settling Parties agree that the Commission should approve the avoided cost of generation capacity and avoided transmission and distribution costs as set forth in the Direct Testimony of Public Service witness Jeremy Petersen, Attachment NCM-1, Appendix E.

# Deferred Accounting of Legal Expenses

* The Settling Parties agree that the Commission should approve for this 2023 DSM Plan Public Service’s request to defer expenses associated with preparing and litigating this Proceeding into a regulatory asset without interest, to be brought forward for review, approval, and recovery in a future cost recovery proceeding.
* Public Service commits to presenting the actual expenses deferred and tracked in the regulatory asset at the time of the future cost recovery filing.

# Regulatory Compliance

* The Settling Parties agree that the Commission should authorize Public Service to file a Compliance Advice Letter on not less than two business days’ notice to implement the Commission’s final decision in this Proceeding.
* The Company agrees to file an updated version of its approved 2023 DSM and BE Plan in this proceeding within 30 days of a final Commission decision. The Executive Summary of the report will separately document its beneficial electrification efforts including participation estimates, anticipated expenditures, costs by budget category, and mTRC test ratios.
  + Public Service’s 2023 DSM and BE Annual Report will include reporting on beneficial electrification program data as described directly above.
* In its 2023 DSM and BE Annual Report, Public Service will include measure-level or appliance-level reporting for products with multiple types of appliances in its annual report when the product includes heating, cooling, or building shell measures.

# Continuation of the Existing 2021-22 DSM Plan

* The Settling Parties agree that the Commission should authorize Public Service to continue its existing 2021-22 DSM Plan until the Commission issues a final decision establishing the effective date of this 2023 DSM & BE Plan.

# Waivers and Variances

* The Settling Parties agree the Commission should approve Public Service’s Motion for Variance seeking waiver from Commission Rule 4756(b) which prohibits fuel-switching. The Settling Parties agree that waiver is appropriate in order to continue the Company’s BE offerings.
* The Settling Parties agree the Commission should approve Public Service’s Motion for Variance seeking waiver from Commission Rule 4753(k) which caps the natural gas energy efficiency budget at $15 million. The Settling Parties agree that waiver is appropriate to accommodate the Company’s proposed $23.5 million natural gas energy efficiency budget and ensure the Company can continue to increase natural gas energy efficiency savings and assist its natural gas customers with reducing their CO2 emissions.
* The Settling Parties recommend the Commission issue any other waivers, variances, or relief necessary to approve and implement the Company’s 2023 DSM & BE Plan.

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**To the extent that parties reach an agreement in this proceeding, the usual and customary settlement language regarding precedent, etc. will be added, *e.g*.:**

*This Agreement is made for settlement purposes only. No Settling Party concedes the validity or correctness of any regulatory principle or methodology directly or indirectly incorporated in this Agreement. Furthermore, this Agreement does not constitute agreement, by any Settling Party, that any principle or methodology contained within or used to reach this Agreement may be applied to any situation other than the above-captioned proceeding, except as expressly set forth herein. No binding precedential effect or other significance, except as may be necessary to enforce this Agreement or a Commission order concerning the Agreement, shall attach to any principle or methodology contained in or used to reach this Agreement, except as expressly set forth herein.*