

RESIDENTIAL AND SMALL COMMERCIAL STANDARD OFFER PROGRAM

Incorporates changes approved at the PUCT 8/21/03 Open Meeting

PROGRAM OVERVIEW

Description

The Residential and Small Commercial Standard Offer Program provides incentives for the installation of a wide range of measures that reduce customer energy costs, and reduce peak demand and/or save energy for residential and/or small commercial customers. Incentives are paid to energy efficiency service providers (EESPs) on the basis of deemed savings, which are standardized savings values or formulas for a wide range of measures in representative building types. If deemed savings have not been established for a particular qualifying energy efficiency measure, then incentives may be paid on the basis of verified peak demand and/or energy savings using the International Performance Measurement and Verification Protocol (IPMVP). Small commercial customers are retail non-residential customers with a maximum demand that does not exceed 100 kW. This program has been developed to comply with P.U.C. SUBST. R. 25.181, relating to the Energy Efficiency Goal, implementing §39.905 of the Public Utility Regulatory Act (PURA).

Rationale

This program seeks to encourage market activity by EESPs that install a wide range of energy efficiency measures in residential and/or small commercial establishments. The EESP is responsible for aggregating the energy and/or peak demand reductions achieved in households and/or small commercial facilities that receive the energy efficiency services in order to meet the minimum project size established by the utility (program administrator).

Program Objectives

The primary objective of this program is to achieve cost-effective reduction in energy consumption during peak summer demand. Additional objectives of the program are to:

- Encourage private sector delivery of energy efficiency products and services
- Achieve customer energy and cost savings
- Significantly reduce barriers to participation by streamlining program procedures and measurement and verification (M&V) requirements
- Encourage participation by a wide range of EESPs
- Produce demand, energy and bill savings in new single-family “affordable housing” projects and in new multifamily projects.

PROGRAM PRICING

Pricing Structure

Standard incentive prices are offered for demand savings and energy savings. Incentive payments shall not exceed the maximum amounts established in P.U.C. SUBST. R. 25.181 regarding proxy avoided costs and customer class, lighting and load factor incentive caps.

ELIGIBILITY

Participant

Any third-party entity meeting the application requirements that installs eligible energy efficiency measures at a customer's site is eligible to participate in the program as a project sponsor. Eligible customers include:

- Existing single-family households,
- New "affordable housing" single family households,
- Existing multifamily,
- New multifamily (in accordance with the specific conditions described below), and
- Mobile home units.

In addition, any third-party entity meeting the application requirements that installs eligible small commercial energy efficiency measures at a non-residential customer site with a maximum demand that does not exceed 100 kW is eligible to participate in the program as a project sponsor. However, if a commercial customer owns multiple sites or facilities in a utility service area and the total demand associated with these facilities exceeds 250 kW, then energy efficiency measures at the facilities of such a customer cannot be included in projects receiving incentives under this program.

Utilities are encouraged to include one of the following energy efficiency program funding allocation strategies to ensure equitable participation from both single-family and multifamily customers, as defined in the 2000 International Energy Conservation Code (IECC). In either case, the utility would establish separate budget allocations for single family and multifamily projects.

1. Umbrella Program Approach: During the application process, applicants designate the proportion of funds that will be applied to multifamily and single-family projects. This proportion would become a contractual obligation of the Project Sponsor, i.e., the amount of funding that the Project Sponsor could receive from either the utility's single-family or multifamily budget would be limited to the amounts requested. If an applicant requests more funds than are available for either market, the applicant may either accept funding allocations as designated by the utility, or keep the application in the queue should additional funds become available.
2. Separate Program Approach: The utility may establish separate application processes for single and multifamily projects. An applicant may elect to reserve up to 100% of the multifamily or single-family allocation, so long as the Project Sponsor's budget reservation does not exceed the cap on incentive funds established by the utility for any Project Sponsor participating in the Residential and Small Commercial SOP. Once all available funds for a particular sector are reserved, subsequent applications for that sector will be held in the queue should additional funds become available.

Utilities may require that project sponsors identify targeted multifamily sites for approval prior to installation of any energy efficiency measure for which an incentive will be requested. Once a multifamily project has been submitted, the utility will notify the project sponsor of its approval or disapproval of the proposed project within ten days.

The participating customer must receive electricity distribution service provided by the sponsoring utility. Eligible project sponsors may include:

- National or local energy service companies (ESCOs)
- Retail Electricity Providers (REPs)
- National or local companies that provide energy-related services (*e.g.*, contracting) or products (*e.g.*, lighting, HVAC equipment)

To ensure that the program's incentive budget is allocated to projects that are likely to meet with success, all project sponsors will be required to demonstrate a commitment to fulfilling program objectives and competency in completing the proposed project. Project sponsors will be required to submit the following information as part of the application process:

- A description of the project sponsor firm, including relevant experience, areas of expertise and references
- A work plan that covers the design, implementation, project schedule, operation, and management of the project, including measurement and verification of the project (The amount of detail required in this work plan will vary with project size.)
- Evidence of credit rating
- Proof of applicable insurance, licenses and permits (if applicable)

Utility administrators must adopt procedures to ensure compliance with sections of Substantive Rule §25.181 regarding "Utility Administration."

Under P.U.C. SUBST. R. 25.181, relating to the Energy Efficiency Goal, each utility must obtain no less than 5.0% of its total demand reduction goal from the "hard-to-reach" customer segment. In order to assist the utility in achieving this goal, the EESP may provide to the utility in each application for an incentive payment documentation of the demand reduction and energy savings achieved through measures installed in dwelling units occupied by families at or below 200% of the federal poverty guidelines. Depending on "Hard-to-Reach" program funding availability, energy and demand savings from "hard-to-reach" customers qualify for additional incentive payments, subject to documentation of household income. Standard procedures for verification of income eligibility will be established and approved by the Public Utility Commission of Texas (Commission). The poverty guidelines shall be updated annually based on the most current guidelines posted in the Federal Register. A utility will identify the funding levels budgeted for residential, small commercial and hard-to-reach customers.

Project

A project is defined by a set of proposed or installed measures, a target population of homes and/or small commercial facilities, and estimated demand and/or energy savings included in a single application. The utility may establish reasonable minimum and maximum project or application sizes.

In order to qualify under the "affordable housing" single family new construction program and receive the hard-to-reach incentive, a household must:

- Be constructed to meet Energy Star standards as certified by a home energy rater, and
- Target populations with incomes at or below 200% of the Department of Health and Human Services Poverty Guidelines.

Projects targeting populations with incomes at or below 80% of the statewide or local median family income are eligible to participate in the "affordable housing" new construction program. Single family development homes constructed under the following programs are categorically eligible:¹

- Habitat for Humanity
- HOME
- CDBG

¹ Additional housing projects may be eligible if it can be demonstrated that they target hard-to-reach homebuyers.

- Housing Trust Funds (state or local)

In order for multifamily projects to qualify for a hard-to-reach incentive, the building envelope must be constructed to meet the 2000 International Energy Conservation Code and the project must meet one of the following criteria:

- Trust Fund Funds (state or local)
- HUD (including HOME, CDBG, Sec. 202, Sec. 811, Section 8)
- Low Income Housing Tax Credit Program
- USDA/Rural Development
- Multifamily Bond

Projects that include a range of measure types are encouraged. Lighting measures shall be limited to 65% of the savings of each project. When a project consists of lighting measures only, compensation shall not exceed 65% of the ceiling incentive amount.

Measure

Project sponsors may install any measure for which a deemed savings value has been provided, including appliances, water heating, lighting, space conditioning, and building shell measures installed in a residential or small commercial building (as defined above). Project sponsors may propose other measures, provided they meet the following requirements:

- Measure must produce a measurable and verifiable electric demand reduction and produce electricity consumption savings.
- Measure must produce savings through an increase in energy efficiency or a substitution of another energy source for electricity.
- Renewable energy measures meeting the requirements of Subst. R. §25.181, relating to the Energy Efficiency Goal may qualify for an incentive.
- Measure must have a minimum useful life of 10 years.
- Measure must meet or exceed minimum equipment standards established by the Commission (if the Commission has indeed established such standards for the equipment included in a given project.)

The following measures are *excluded* from consideration in the program:

- Measures that receive an incentive through any other energy efficiency program offered by the utility.
- Measures that involve self-generation or cogeneration, except for renewable DSM technologies.
- Measures that rely on changes in customer behavior and require no capital investment.
- Measures that result in negative environmental or health effects.
- Measures that are not allowable under Subs. R. §25.181. relating to the Energy Efficiency Goal

As a general rule, measures involving “plug loads” (equipment or appliances that are plugged into standard electrical outlets) are not permitted. However, this restriction may be waived by the utility if the EESP provides the utility with reasonable assurance that the energy and/or demand savings associated with such measures are likely to persist over a 10-year period of time and that quantifiable energy and/or demand reduction meeting the requirements of the Subst. R. §25.181, relating to the Energy Efficiency Goal can indeed be achieved through the proposed measure(s).

If the EESP pursues measures for which deemed savings values have not been approved by the Public Utility Commission of Texas, then the EESP must follow the M&V protocol adopted by the Commission. New multifamily construction projects are limited to the following measures:

- High-efficiency air conditioning systems and heat pumps
- Energy Star®-quality windows
- Energy-efficient refrigerators

MEASUREMENT AND VERIFICATION

Purpose

Information on the number, type, and installation of each measure will be verified for a sample of each measure to ensure the accuracy of reported savings.

Responsibility

The project sponsor will be responsible for submitting documentation of all measure installations. The program administrator will review project documentation and conduct inspections at a sample of project sites.

Approach

The participants of the Energy Efficiency Implementation Docket and the Public Utility Commission will strive to develop deemed savings values for all of the types of energy efficiency measures that are likely to be completed through this program. These deemed savings values will be developed through the Commission's Energy Efficiency Implementation Docket and approved by the Commission. These values may be periodically refined by the Commission.

Despite the goal for establishing deemed savings values, it is possible that an EESP will propose an eligible energy efficiency measure that has not been contemplated by the program administrator or the Commission. Further, there may be some lag before deemed savings values can be developed and approved for new technologies that are introduced into the marketplace.

If an EESP wishes to pursue an eligible energy efficiency measure for which deemed savings values have not been approved by the Commission, the EESP shall follow the International Performance Measurement and Verification Protocol.

With the consent of the distribution utility, the EESP may also elect to use this protocol to measure and verify the savings associated with a qualifying project even if deemed savings for all measures included in the project have been approved by the Commission.

Under all circumstances, the EESP is responsible for the costs associated with the measurement and verification of energy and demand reduction.

If the utility anticipates that its involvement in the project sponsor's M&V activities will result in costs to the utility which exceed 5% of the incentive amount requested by the project sponsor, the utility is entitled to charge an application fee to the project sponsor. Such fee shall be designed to offset the utility's M&V-related costs.

For renewable energy projects, the approach used to measure and verify energy and/or demand savings may comply with any Commission approved M&V protocol.

Inspection Procedures

The utility is responsible for the inspection of projects to verify that measures are installed and capable of performing their intended function. The nature of such inspections may vary, depending upon the type of measures implemented. Inspections and adjustments to Project Sponsor invoices shall be conducted in accordance with Substantive Rule §25.181.

PROGRAM PROCESS

Application

Potential project sponsors must complete an application to participate in the program. The application provides evidence of qualifications and identifies the target market, proposed measures to be installed, the total estimated project size (in kW and/or kWh savings), the total requested incentive amount, and a project timeline. The distribution utility may set a performance security requirement of up to 5% of a project's estimated incentive payment. Such performance security, if set by the distribution utility, must be applied to each project application in a nondiscriminatory manner. Approval of the application will reserve funding for the project. Applications will be accepted on a first-come, first-served basis

Installation

Project sponsors participating in the program will be required to sign a standard offer contract with the utility. The terms of the contract will be standard for all participants, and will include estimates of peak demand and/or energy savings along with a maximum incentive payment associated with the project. After signing a program contract, the project sponsor may install measures. Project sponsors will be required to submit an installation report that documents the installation of measures.

Payment

After each project is installed, documented, and accepted, the project sponsor will receive an initial payment that represents 40% of the total estimated incentive payment. After all required site inspections are complete, the project sponsor will receive the remaining incentive payment as adjusted (up to 60% of the total estimated incentive payment).

If the project consists entirely of energy efficiency measures for which deemed savings have been approved by the Commission and the EESP wishes to be paid entirely on the basis of these deemed savings values, then the utility may provide a single incentive payment to the project sponsor upon completion of project installation, documentation, acceptance, and any necessary inspections.

PROGRAM PROMOTION

One of the advantages of the standard offer program design is that utilities rely on the marketing capabilities of EESPs to sell projects to individual customers. The utility will conduct outreach for the program by providing complete program information and application materials, by producing a one-page program brochure, and by conducting workshops for potential project sponsors.

Brochures

A one-page program brochure will be developed to explain basic program information to participants. The brochure will be available to project sponsors upon request and at workshops described below. The sponsoring utility will not undertake direct mailing of brochures to consumers.

Workshops

A series of workshops will be held to explain the program process and requirements to potential project sponsors. Workshops will be advertised in public media and through direct mailings to potential project sponsors.

CUSTOMER PROTECTION

The program shall be designed to comply with the customer protection provisions required by Substantive Rule §25.181 relating to the Energy Efficiency Goal.