

Pacific Power’s Planned Changes to Wattsmart Business in Washington Effective January 1, 2024

Pacific Power is planning modifications to the Wattsmart Business energy efficiency incentive program, which is offered through Schedule 140. Consistent with the change process for the Wattsmart Business program documented and approved in Advice 13-08 (Docket UE-132083), notice of the changes is posted on the program website¹ 45 days prior to implementation. The planned changes to the incentive tables are included in Exhibit A-1. The planned changes to Lighting Instant Incentives are included in Exhibit A-2. There are no planned changes to the enhanced non-lighting incentive offer for small businesses; the current incentives are included in Exhibit A-3.

Background

The Wattsmart Business program is available to Pacific Power’s commercial, industrial, and irrigation customers in Washington and offers incentives for prescriptive/listed, custom, and energy management measures. Incentives are available for both retrofit projects and new construction/major renovation projects. There is an enhanced incentive offer for existing small business customers for both lighting and non-lighting retrofits as well as an instant incentive offer for qualifying lamps purchased from participating distributors.²

Description of Planned Wattsmart Business Changes

Changes are part of the adaptive management strategy for the Wattsmart Business program for the 2024-2025 biennium and the changes for January 1, 2024, are intended to

- a) Address impacts of inflation by increasing incentives for select lighting and non-lighting measures,
- b) Align the program’s measure offerings and incentives with the target setting process, including using the latest unit energy savings (UES) and Standard Protocols from the Regional Technical Forum (RTF) as of June 1, 2023,
- c) Align the program with the latest energy code and third-party specifications such as Consortium for Energy Efficiency (CEE) and Energy Star, and
- d) Make other minor administrative changes.

Explanation of Changes

The planned program changes are summarized in the tables below. For more details, refer to the revised Wattsmart Business incentive tables and information, attached as Exhibit A-1 and the revised incentives for the Lighting Instant Incentive offer in Exhibit A-2. Exhibits A-1 and A-2 are marked in redline form to show the planned changes relative to the current program.³

¹ [Washington Energy Efficiency \(pacificpower.net\)](https://www.pacificpower.net)

² This offer is marketed to customers as the Lighting Instant Incentive. It is also referred to as a “midstream” offer and is labeled as “mid-market” in Exhibit A-1.

³ For reference, the current program and incentive tables can be found at https://www.pacificpower.net/content/dam/pcorp/documents/en/pacificpower/savings-energy-choices/wattsmart-business/washington/WA_wattsmartBusiness_Incentive_tables_information.pdf.

| Definitions, Exhibit A-1, page 1 | | |
|---|---|--|
| Category | Description of Change | Reason for Change |
| Combined Heat and Power | Add definition for Combined Heat and Power | Combined Heat and Power savings potential is included in the target in the 2024-2025 Biennial Conservation Plan. Revising the program definitions to make Combined Heat and Power eligible for incentives. Additional terms and conditions for eligibility will be available on the program website. |
| Energy Efficiency Measure | Modify definition for Energy Efficiency Measure | |

| Incentives – General Information, INCENTIVES table, Exhibit A-1, page 6 | | |
|--|---|---|
| Category | Description of Change | Reason for Change |
| Custom Non-Lighting Incentives | Increase incentive from \$0.24/kWh to \$0.28/kWh annual savings | <p>Inflation, economic uncertainty, continued staffing pressure, and supply chain delays have driven up the real and perceived cost of implementing capital projects by commercial, industrial and irrigation customers. Payback before incentive has been rising steadily since 2020, from 4.8 years in 2020 to 6.2 years in 2023. The past incentive increases over this period from 18 cents/kWh to 24 cents/kWh have enabled average payback after incentive to hover near 2.5 years for the past two years. This 1/1/2024 \$/kWh incentive increase to 28 cents/kWh, retaining the 70% cap, is expected to compensate for inflation and bring average payback down by about half a year to an average of 2.1 years for projects.</p> <p>For more details on the analysis for the incentive change, refer to Exhibit C-1.</p> |

| Lighting System Retrofits Incentive Table, Exhibit A-1, page 8 | | |
|---|--|--|
| Category | Description of Change | Reason for Change |
| Interior Lighting Exterior Lighting | Increase incentives per kWh annual savings by approximately 20 percent | Lighting project costs have increased due to inflation. Material cost is increasing while labor shortages persist leading to higher labor costs. Moreover, the program is receiving feedback that more large |

[WA_wattsmartBusiness_Lighting_Midstream.pdf \(pacificpower.net\)](#), [WA_Lighting_Instant_Incentive_Offer_9-4-2022.pdf \(pacificpower.net\)](#), and [ExhibitA-3_Changes_to_WA_NonLighting_Incentive_Offer_1-2023.pdf \(pacificpower.net\)](#)

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| <p>Controlled Environment Agriculture Lighting</p> <p>Custom Lighting</p> | | <p>projects are being delayed as companies hesitate on capital expenditures in an uncertain economy, especially with low occupancy rates in commercial facilities. An incentive increase will offset increased customer costs and decrease customer project paybacks.</p> <p>Most lighting projects are elective, and a shorter payback period makes project initiation more justifiable for the customer.</p> <p>For more details on the analysis for the lighting incentive change, refer to Exhibit C-2.</p> |
| <p>Interior Lighting Lamp Replacement</p> <p>Controlled Environment Agriculture (CEA) Lamp Replacement</p> | <p>Create a separate incentive for program eligible TLED lamps</p> <p>Set the incentive at \$0.10/kWh annual savings</p> | <p>The RTF Non-Residential Lighting Midstream workbook version 6.1 expands on deemed costs and savings specific to the shape, length, and type of TLEDs. Several lamps are shown to have deemed incremental cost low enough to prompt their removal from the Instant Incentive (midstream) offer. In addition, the latest approach taken by the RTF precludes uncommon TLED lamps from eligibility for the midstream offer.</p> <p>While the program has been successful in promoting fixture replacements, TLEDs remain the most logical and economical energy-saving option for certain facility types such as smaller businesses with low operating hours where the energy savings do not justify the cost of full fixture replacements. It is in the customer's best interest that program incentives for TLEDs remain as comprehensive and as simple as possible. For these reasons, the program is adding a separate measure in this table (no longer referencing the Mid-market table) so that most⁴ TLEDs remain an option for customers participating in site-specific lighting retrofits.</p> |

⁴ Type A TLEDs (without an LED driver) will not be eligible for incentives effective 1/1/2024.

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| | | The incentive for TLED lamps is set lower to maintain the good/better/best incentive structure (with lamp replacements being “good”). |
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| New Construction/Major Renovation Lighting Incentive Table, page 9 | | |
|---|---|---|
| Category | Description of Change | Reason for Change |
| Controlled Environment Agriculture | Remove “Products must be installed in facilities where energy code does not apply” from the eligibility requirements. | The new state energy code (WSEC-C 2021) stipulates a minimum photo efficiency requirement for plant growth lighting. Thus, the energy code applies to Controlled Environment Agriculture, and the eligibility requirement needs revision. |

| HVAC Equipment Incentive Table, Exhibit A-1, page 11-13 | | |
|---|---|---|
| Category | Description of Change | Reason for Change |
| Heat Pumps, Air-Cooled (Heating & Cooling Mode) Heat Pumps, Water-Source VRF Water-Cooled Heat Pumps (Heating & Cooling Mode) | Consolidate the heating mode and cooling mode into one section for the heat pump measures. | Simplify the incentive table. Incentives and minimum efficiency requirements remain unchanged. |
| VRF Air-Cooled Heat Pumps (Heating & Cooling Mode) | Change the minimum efficiency requirement to ENERGY STAR. Consolidate the heating mode and cooling mode into one section for the heat pump measures. | The program changed the efficiency requirement for typical heat pump and heat pump replacing electric resistance heating to align with ENERGY STAR on January 1 and July 1, 2023. While the existing VRF minimum efficiency requirement remains above code, switching to ENERGY STAR creates more consistency between the different heat pump offerings. |
| Heat Pump, Air Cooled, Replacing Electric Resistance Heating (Heating & Cooling Mode) | Modify savings calculation methodology, resulting in increased savings. Remove the \$250/ton incentive for CEE Tier 1 equipment. | Switching from electric resistance to a heat pump requires a costly total system change. In the past, the savings methodology accounted for savings above code instead of accounting for the full savings associated with the system change. This methodology resulted in lower savings and |

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| | <p>Remove CEE Tier 2 from the eligibility requirement.</p> <p>Increase the incentive offerings to \$800 per cooling ton for ENERGY STAR heat pumps replacing electric resistance heating.</p> <p>Consolidate the heating mode and cooling mode into one section for the heat pump measures.</p> | <p>a lower incentive. By changing the savings methodology to better align with the measure, the incentive can also be increased.</p> <p>The incentive increase will help offset the cost associated with replacing electric resistance heating. Other utilities are also currently offering similar levels of incentives.</p> <p>There is negligible difference between ENERGY STAR and CEE part-load requirements. For program simplicity, incentives and references to CEE Tier 1 and 2 are removed.</p> |
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| Other HVAC Equipment and Controls Incentive Table, Exhibit A-1, page 15 | | |
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| Category | Description of Change | Reason for Change |
| Advanced Rooftop Unit Controls | Cap the incentive at 100 percent of Energy Efficiency Measure Cost | There is a potential new product that could qualify for the Advanced Rooftop Unit Controls incentive that has relatively low costs. Adding the cap to prevent paying incentives that exceed costs. |

| Food Service Equipment Incentive Table, Exhibit A-1, page 18 | | |
|---|--|--|
| Category | Description of Change | Reason for Change |
| Demand Controlled Kitchen Ventilation Exhaust Hood | Remove the measure from the typical program. The measure will continue to be eligible for program incentives through the custom non-lighting path. | The measure is removed as a listed measure due to low participation. Commercial customers interested in this measure can still be eligible for custom non-lighting incentives, which are higher than the listed incentive. |
| On-Demand Overwrapper | Add the measure to the program and set the incentive at \$200 per unit | Adding this RTF measure to the food service equipment list to expand streamlined incentive options for customers. |

| Irrigation Incentives for Any Type of System, Farm and Dairy Incentives, Compressed Air Incentives, Incentives for Wastewater and other Refrigeration Energy Efficiency Measures – Exhibit A-1, pages 21-25 | | |
|--|---|--|
| Category | Description of Change | Reason for Change |
| Irrigation Pump VFD | | |
| Heat Recovery | | |
| Milk Pre-coolers (Retrofit Only) | | |
| VFD Controlled Compressor (Retrofit Only) | Increase incentive from \$0.24/kWh to \$0.28/kWh annual savings | Measure costs (labor and materials) have increased due to inflation and other factors. Increasing the incentive to continue to bring paybacks for most projects down to 1-2 years to make it more likely customers can get projects funded and implemented. For more details on the analysis for the incentive change, refer to Exhibit C-1. |
| Adaptive Refrigeration Control | | |
| Fact Acting Door | | |
| Wastewater – low power mixer | | |

| Enhanced Incentives for Small Business, Select Very Small Business and Named Community Small Business - Lighting (Retrofit Only) , Exhibit A-1, pages 25-27 | | |
|--|---|--|
| Category | Description of Change | Reason for Change |
| Lighting | <p>Increase the incentive for most lighting offerings</p> <p>Set separate incentives for lamp-only replacements</p> <p>Set separate incentive for exterior lighting retrofits</p> | <p>An incentive increase will help alleviate the effects of inflation on small businesses and increase customer participation. It will also retain the alignment between lighting incentive offers with Named Community Small Business/Very Small Business incentives being the highest in most cases.</p> <p>A separate and lower incentive is added for lamp replacements as an incentive increase is not warranted for simple lamp replacements or exterior lighting.</p> |

| Mid-Market Incentive Table, Exhibit A-1 (Page 29), Exhibit A-2 (Page 1) | | |
|--|---|--|
| Category | Description of Change | Reason for Change |
| T8 TLED Lamp | Align with RTF Non-Residential Lighting Midstream v6.1 | The RTF has begun differentiating TLEDs by shape, length, and type. In aligning with the RTF, several lamps will be removed from the Instant Incentive (midstream) offer due to low incremental cost; however, the same lamps may continue to be eligible for typical and small business retrofit lighting incentives. Please see Exhibit A-2 for more information. |
| T5 TLED Lamp | Align with RTF Non-Residential Lighting Midstream v6.1 | The RTF now differentiates TLEDs by shape, length, and type. The program will align with the RTF. Other T5 TLED lamps not included in Exhibit A-2 may be eligible for typical or small business lighting retrofit incentives. Please see Exhibit A-2 for more information. |
| HID Replacement Lamp | Decrease the incentive offering for HID Replacement Lamp ≥ 70 W to \$35/Lamp | The RTF reduced deemed kWh savings and incremental costs; reducing the incentive in alignment with the reduced RTF values. |
| Wall Pack Fixture | Remove the measure from the Instant Incentive program | Remove the wall pack fixture measure offerings from the mid-market table due to low RTF assumed deemed savings and incremental costs. Wall pack fixtures are a key measure for exterior lighting elective retrofits and will continue to be eligible for full fixture replacement \$/kWh typical/listed and small business lighting incentives. |

| Direct Install Incentives – Exhibit A-1, pages 30 | | |
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| Category | Description of Change | Reason for Change |
| TLED Lamp | Removed the language specifying Type A, A/B Dual | To provide more flexibility on the different types of TLED lamps eligible for direct install |

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| | <p>Mode and revise the measure category to “TLED Lamp”</p> <p>Note: Type A TLEDs (without an LED driver) will be ineligible for this offer.</p> | |
|--|---|--|

Other Adaptive Management Improvements

Lingering impacts of the COVID-19 pandemic continue to affect customer participation. The cost of implementing projects is higher due to inflation and labor issues. Lighting projects are particularly sensitive to price increases because they are usually sold proactively to the customer as an elective project that needs to be justified based on a quick payback. Supply chain issues remain for some equipment, making it challenging for customers to get efficient equipment when they want/need it. There remains a shortage of skilled labor to complete project installations. Many of the program changes described in the tables above are adaptive management improvements in response to these continuing impacts of the pandemic.

Revised Customer Eligibility for the Small Business Offer

The maximum electric annual usage eligibility criteria for Small Business and Named Community Small Business will be reduced from 300,000 kWh to 200,000 kWh. The intent is for the increased small business lighting incentives to encourage participation among the smaller businesses. Customers with usage between 200,000 and 300,000 kWh will be eligible for retrofit lighting incentives, which are increasing to be comparable to the 2023 small business lighting incentives.

Customer eligibility for the small business offers is managed on the Pacific Power website.⁵ Here is the current customer eligibility for the small business lighting offer:

“Washington small businesses on rate schedule 24 with annual usage less than or equal to 300,000 kWh (non-residential facility total) and/or total non-residential facility square footage of 20,000 square feet or less are eligible to participate.”

This language will be revised to:

“Washington small businesses on rate schedule 24 with annual usage less than or equal to 200,000 kWh (non-residential facility total) and/or total non-residential facility square footage of 20,000 square feet or less are eligible to participate.”

The Named Community Small Business offer maximum electric annual usage eligibility criteria will also be reduced from 300,000 to 200,000 kWh.

Vendor Incentives

⁵ [Washington Small Business Lighting \(pacificpower.net\)](http://www.pacificpower.net)

To encourage participation in the overall Wattsmart Business incentives and to increase participation in select measures and for targeted customers, vendor incentives will continue to be offered to Washington Wattsmart Business vendors in good standing for qualifying projects. These incentives will be first come, first served until funding is exhausted, with per vendor caps for specific measures, such as lighting, to provide motivation for vendors to complete multiple projects. Vendor incentives for 2024 will begin on January 1st and be for lighting, select non-lighting, and small business lighting/non-lighting projects.

In addition to the current non-lighting vendor incentives for advanced rooftop unit controls and small business non-lighting, Pacific Power will offer vendor incentives for select air-conditioners and heat pumps.

Clean Energy Transformation Act

In alignment with the Clean Energy Transformation Act (SB 5116, 2019), Pacific Power will continue to improve small business and Named Community business participation.

Named Communities include customers located in Highly Impacted Communities⁶ and Vulnerable Populations. These Pacific Power customers face barriers to implementing energy upgrades in their businesses, including socioeconomic factors, such as limited English and limited access to capital for energy upgrades. Pacific Power will continue enhanced incentives and targeted outreach strategies to better serve these customers and to connect them with energy efficiency improvements.

The following utility actions are planned for 2024-2025:

- Continue to increase the number of businesses in Highly Impacted Communities and small businesses participating; 2024-2025 results will be reflected in the energy efficiency Customer Benefit Indicator metrics.
 - Enhanced customer incentives for Small Businesses in Highly Impacted Communities and Very Small Businesses
 - Continue the small business enhanced incentive lighting and non-lighting offers targeting Named Community Small Businesses (located in Highly Impacted Communities) and the smallest businesses using less than 30,000 kilowatt-hours per year (very small businesses) on Schedule 24.
 - Continue to offer higher incentives than the regular small business offer with incentives capped at 100% of project costs for lighting to reduce the customer out-of-pocket cost barrier.
 - Enhanced vendor incentives - Continue to offer approved small business lighting vendors a higher vendor incentive for completed lighting retrofit projects with Small Businesses in Highly Impacted Communities and Very Small Businesses.
 - Targeted outreach
 - Continue to target a portion of company initiated proactive outreach to Small Businesses in Highly Impacted Communities and Very Small Businesses;

⁶<https://www.doh.wa.gov/DataandStatisticalReports/WashingtonTrackingNetworkWTN/ClimateProjections/CleanEnergyTransformationAct>

continue to tie proactive outreach to approved small business vendor capacity to respond to customer inquiries.

- Target a portion of company initiated proactive outreach to business customers located on Tribal land.
- Continue development of program materials in Spanish; continue and increase outreach to Latine business customers, vendors and community groups.

Regional Technical Forum (RTF) review

The program alignment to RTF Unit Energy Savings measures and Standard Protocols as of June 1, 2023, was reviewed as part of planning for program changes effective in January. The results of this review can be found in Exhibit B.

Transition Plan

For projects where pre-approval is required (e.g., lighting retrofits and custom non-lighting), the version of the program that applies is based on the incentive offer issue date. To minimize potential delays to projects, the program may implement a best deal offer for projects with valid incentive offer issued between the program change notice and effective date. The table below provides more information.

Program Version Determination

| Incentive Offer Letter Issue Date | Applicable Program Version |
|---|--|
| Incentive Offer Letter dated prior to 11/15/2023 Incentive Offer Letter dated from 11/15/2023 – 12/31/2023 and project completes in 2023 | Program version in effect when the Incentive Offer Letter was issued |
| Incentive Offer Letter dated from 11/15/2023 – 12/31/2023 and project completes 1/1/2024 or after | Best Deal Projects are eligible for incentives from the 7/1/2023 or the 1/1/2024 program version, whichever is the best incentive |
| Incentive Offer Letter dated 1/1/2024 or after | Program version in effect when the Incentive Offer Letter was issued |

For projects where pre-approval is not required, the version of the program is based on the equipment purchase order/invoice date for the first item(s) purchased for the project. Should the earliest invoice date be prior to the current program’s effective date, the project may be subject to requirements and incentives from the prior program version.

Cost-Effectiveness

The Wattsmart Business program with the proposed changes is projected to be cost-effective for 2024-2025. Program level cost-effectiveness results (without Non-Energy Impacts or NEIs) are provided in the table below. For more cost-effectiveness results, refer to Exhibit D.

Wattsmart Business 2024-2025 Cost-Effectiveness (without Non-Energy Impacts)

Table 14: Wattsmart Business Cost-Effectiveness Results - PY2024 and PY2025

| Cost-Effectiveness Test | Levelized \$/kWh | NPV Costs | NPV Benefits | Net Benefits | Benefit/Cost Ratio |
|--|-------------------------|------------------|---------------------|---------------------|---------------------------|
| Total Resource Cost Test (PTRC) + Conservation Adder | \$0.0546 | \$26,386,151 | \$50,757,653 | \$24,371,503 | 1.92 |
| Total Resource Cost Test (TRC) No Adder | \$0.0546 | \$26,386,151 | \$46,143,321 | \$19,757,171 | 1.75 |
| Utility Cost Test (UCT) | \$0.0547 | \$26,481,766 | \$46,143,321 | \$19,661,555 | 1.74 |
| Participant Cost Test (PCT) | | \$17,416,290 | \$61,214,429 | \$43,798,138 | 3.51 |
| Rate Impact Test (RIM) | | \$70,184,289 | \$46,143,321 | (\$24,040,968) | 0.66 |
| Lifecycle Revenue Impacts (\$/kWh) | | | | | \$0.0014312 |
| Discounted Participant Payback (years) | | | | | 3.24 |

Wattsmart Business 2024-2025 Cost-Effectiveness (with Non-Energy Impacts)

Table 15: Wattsmart Business with NEIs Cost-Effectiveness Results - PY2024 and PY2025

| Cost-Effectiveness Test | Levelized \$/kWh | NPV Costs | NPV Benefits | Net Benefits | Benefit/Cost Ratio |
|--|-------------------------|------------------|---------------------|---------------------|---------------------------|
| Total Resource Cost Test (PTRC) + Conservation Adder | \$0.0546 | \$26,386,151 | \$58,813,937 | \$32,427,787 | 2.23 |
| Total Resource Cost Test (TRC) No Adder | \$0.0546 | \$26,386,151 | \$54,199,605 | \$27,813,455 | 2.05 |
| Utility Cost Test (UCT) | \$0.0547 | \$26,481,766 | \$46,143,321 | \$19,661,555 | 1.74 |
| Participant Cost Test (PCT) | | \$17,416,290 | \$69,270,713 | \$51,854,422 | 3.98 |
| Rate Impact Test (RIM) | | \$70,184,289 | \$46,143,321 | (\$24,040,968) | 0.66 |
| Lifecycle Revenue Impacts (\$/kWh) | | | | | \$0.0014312 |
| Discounted Participant Payback (years) | | | | | 2.79 |

Exhibits Provided

- Exhibit A-1 – WA WSB Incentive Tables effective 7-1-2023 w changes marked for 1-1-2024

- Exhibit A-2 –WA WSB Lighting Instant Incentive offer effective 7-1-2023 with changes marked for 1-1-2024
- Exhibit A-3 – WA Wattsmart Small Business Non-Lighting Enhanced Incentives effective 7-1-2023
- Exhibit B – WA WSB RTF Alignment Review for program effective 1-1-2024
- Exhibit C-1 – WA WSB Custom Non-Lighting Incentive Increase Analysis
- Exhibit C-2 – WA WSB Lighting Incentive Increase Analysis
- Exhibit D – Wattsmart Business Cost-Effectiveness analysis (filename is DRAFT_PacifiCorp_Business_Cost-Effectiveness_PY2024-2025_WA.doc)