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Southwest Energy Efficiency

Saving Money and Reducing Pollution through E

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To: Arizona Corporation Commission
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From: Jeff Schlegel, SWEEP

Date: February 14, 2006

Re: Comments on the APS Non-Residential DSM Programs
**In the Matter of the Application of Arizona Public Service Company
for Approval of its Demand Side Management Program Portfolio
Plan and Related Programs**
Docket No. E-01345A-05-0477

The Southwest Energy Efficiency Project (SWEEP) hereby submits its comments on the APS Non-Residential Demand Side Management (DSM) programs.

- 1. SWEEP supports the Non-Residential DSM programs and urges Commission approval. The Non-Residential programs are cost-effective and will provide over \$41 million in net benefits (benefits exceeding costs).**

SWEEP supports the APS Non-Residential DSM programs scheduled for the February 14 Open Meeting agenda. As Staff's analysis shows, the Non-Residential programs are cost-effective with over \$41 million in net benefits (Staff Report, p. 7). For each \$1.00 of ratepayer funding (\$20.7 million total) the programs will provide over \$3.50 in benefits (\$75.9 million total). The Societal Test benefit/cost ratio is 2.2. These programs will reach many commercial, industrial, municipal, and school customers in the APS service territory, assisting them in increasing their energy efficiency, and helping to mitigate the impact of rising energy prices.

SWEEP has reviewed the Non-Residential programs, in the APS collaborative working group and since then in its review of the filed DSM program application. SWEEP urges Commission approval of the Non-Residential DSM programs at the February 14 Open Meeting.

- 2. "Interim approval" should not result in the Non-Residential programs ceasing operation after 12 months. DSM programs receiving interim approval should remain in operation until the Commission takes additional action.**

In its Report (p. 40-41) and in the Recommended Order (p. 2), Staff recommends interim approval of the Non-Residential DSM programs now, and a requirement that APS refile

the Non-Residential portion of its DSM Program Portfolio plan and additional data within 13 months of a decision. SWEEP believes that the Non-Residential programs receiving interim approval should remain in operation until the Commission takes additional action. The interim-approved programs should not cease operation after 12 months, and the programs should remain in operation during the period of Staff review and Commission consideration of the APS 13-month filing. Once the DSM programs are approved (interim or final) and implemented, they should continue in operation until such time that the Commission decides otherwise. Interrupting cost-effective programs for Staff or Commission review of the 13-month filing would reduce the momentum in the market and harm customers, program contractors, and program partners.

To clarify this issue, SWEEP recommends that the following text be added to the end of Findings of Fact, 6.b., or be included in the Order as its own Finding of Fact:

DSM programs receiving interim approval shall remain in operation until the Commission takes additional action. DSM programs receiving interim approval shall not cease operation after 12 months, and the programs shall remain in operation during the period of Staff review and Commission consideration of the APS 13-month filing.

3. SWEEP supports APS Proposed Amendment 1. APS should be able to recover its Planning and Administration expenses in a timely manner, as long as those expenses do not exceed 10% of total program expenses.

SWEEP supports APS Proposed Amendment 1 regarding Planning and Administration expenses, filed on February 14, 2006. SWEEP believes that APS should be able to recover its Planning and Administration expenses in a timely manner, consistent with the manner and timing of the recovery of other DSM expenses.

Planning and Administration are essential activities of DSM programs, and they are necessary to ensure the development and implementation of effective and cost-effective programs. These activities and their associated budgets were discussed during the DSM collaborative working group, and while there were efforts to keep Planning and Administration costs low during the planning process, the collaborative did not recommend delayed recovery of such expenses. The collaborative supported the APS DSM Portfolio Plan and the proposed budget, which included the Planning and Administration budget for the portfolio and for each program.

SWEEP supports the Staff recommendation to cap Planning and Administration expenses, which is also included in APS Proposed Amendment 1, with one clarification. The text in APS Proposed Amendment 1, line 6 (and the related text in Finding of Fact 6.u.) should be modified as follows:

...the Program and Administration costs should not exceed 10 percent of the total program expenditures.

It is important that the 10% cap apply to *expenditures* rather than to the *budget*, because actual expenditures in a program may vary from the budget. For example, actual expenditures for programs with a stronger-than-expected market response may be higher than budget while those with a weaker-than-expected market response may be lower than budget. The 10% cap should refer to actual program expenditures, not to the budget.

4. The Staff-proposed cap on Rebates and Incentives should be clarified and increased to 65% of overall Non-Residential program expenditures.

SWEEP recommends that Finding of Fact 6.v. be modified as follows:

Staff has recommended that the combined expenditure for Rebates and Incentives for the Non-Residential programs from 2005 to 2007 be capped at 65 percent of the overall Non-Residential program expenditures .

Alternatively, a new Finding of Fact could be inserted, as follows:

The Commission has reviewed the recommendations related to Rebates and Incentives proposed by Staff in Finding of Fact #6, paragraph v., which recommends that combined expenditures for Rebates and Incentives for the Non-Residential programs from 2005 to 2007 be capped at the current estimated level, which is 52 percent of the overall budget. The Commission will allow the combined expenditures for Rebates and Incentives for the Non-Residential programs from 2005 to 2007 to be capped at 65 percent of the overall Non-Residential program expenditures.

First, the cap on Rebates and Incentives should apply to *expenditures* rather than to the *budget*, because actual expenditures in the programs may vary from the budget.

Second, because the 52% was a mid-point budget estimate, any cap should be slightly higher than the budget to allow for program flexibility. For example, should APS spend Rebates and Incentives exactly as budgeted, yet also be able to spend less than budgeted in other budget categories, the Rebates and Incentive cap (applied based on budget) would limit the transfer of additional DSM funding to Rebates and Incentives. This would prevent additional customers from participating in and benefiting from the DSM programs. SWEEP agrees that the APS DSM programs should not provide higher-than-necessary financial incentives, but SWEEP believes it is best to address this issue when setting incentive levels for measures in each program.

5. SWEEP requests that the Commission set a deadline for Staff to complete its review of the Residential DSM programs and other DSM activities. SWEEP recommends that these items be scheduled for the March 15-16 Open Meeting.

SWEEP recommends that the Commission set a deadline for Staff to complete its review of the remaining APS-proposed and collaborative-recommended DSM activities, including the Low Income program, the other Residential programs, and the other DSM

activities such as Measurement, Evaluation, and Research (MER) and the Performance Incentive. Funds have been collected from customers since April 2005. It is important to implement these cost-effective programs and related activities in a timely manner to benefit customers, the economy, the electric and natural gas systems, and the environment. SWEEP recommends that the remaining APS DSM programs and activities be scheduled for the March 15-16 Open Meeting.

Thank you for your consideration of the APS Non-Residential DSM programs.