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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
MARC SPITZER  
Commissioner  
MIKE GLEASON  
Commissioner  
KRISTIN K. MAYES  
Commissioner

Arizona Corporation Commission

DOCKETED

APR 12 2006

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IN THE MATTER OF ARIZONA PUBLIC  
SERVICE COMPANY FOR APPROVAL OF  
ITS DEMAND-SIDE MANAGEMENT  
PROGRAM PORTFOLIO PLAN AND  
RELATED PROGRAMS

DOCKET NO. E-01345A-05-0477  
DECISION NO. 68648  
ORDER

Open Meeting  
April 4 and 5, 2006  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On July 1, 2005, APS filed an application for approval of its Demand-Side Management ("DSM") Portfolio Plan and related programs ("Portfolio Plan" or "Application"). The Portfolio Plan includes various DSM programs that would provide DSM opportunities for both residential and non-residential participants. The Portfolio Plan was filed in response to APS' DSM obligations provided for in Commission Decision No. 67744. APS filed revisions to its original filing on November 14, 2005, and November 21, 2005.
3. Under Commission Decision No. 67744, APS is obligated to spend at least \$16 million per year, or \$48 million over the initial three-year period of 2005 to 2007, on Commission-approved DSM programs and to implement and maintain a collaborative DSM working group to facilitate stakeholder input on program development and implementation. Decision No. 67744

1 approved a Preliminary Energy-efficiency DSM Plan. APS was to file a final plan within 120 days  
2 of the Decision. The Portfolio Plan is the final plan. Drafts of the DSM programs contained in the  
3 Portfolio Plan were discussed within the DSM collaborative group.

4 4. The Application consists of residential and non-residential categories. The Non-  
5 Residential Programs were approved by the Commission in Decision No. 68488 on February 23,  
6 2006. At this time, Staff is addressing the Residential New Construction Program ("New  
7 Construction"), the Residential Existing Homes Heating, Ventilating, and Air Conditioning  
8 Efficiency Program ("HVAC Efficiency"), the budget for Measurement, Evaluation, and Research  
9 ("MER"), and flexibility for the Consumer Products Program. The "Energy Wise" Low Income  
10 Program ("Low Income") is being addressed in Docket No. E-01345A-05-0414. APS has  
11 estimated that it will spend about \$9.8 million for the New Construction and HVAC Efficiency  
12 Programs and \$3.9 million for MER<sup>1</sup> over a three-year period.

13 5. This order does not address the details of the Low Income Program or the  
14 Performance Incentive. The Consumer Products portion of the Residential Program was  
15 previously approved in Commission Decision No. 68064. This order addresses the details of the  
16 New Construction Program, the HVAC Efficiency Program, the MER budget, flexibility for the  
17 Consumer Products Program, and certain procedural and reporting requirements for all of the  
18 Residential Programs included in the Portfolio Plan

19 6. Staff estimates that the proposed Residential New Construction and HVAC  
20 Efficiency Programs for three years could result in about \$10.3 million of net benefits to society  
21 over the lifetime of the measures. In addition, Staff estimates that these two Residential Programs  
22 could reduce APS' annual peak demand by about 17.7 megawatts ("MW") and energy  
23 consumption by about 553,000 megawatt-hours ("MWh") over the life of the measures.

24 7. Staff's recommendations are summarized below:

25 a) Staff has recommended approval of the New Construction Program.  
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28 <sup>1</sup> Approximately \$500,000 of the MER budget has been allocated to cover the cost of the baseline study.

- 1 b) Staff has recommended approval of the HVAC Efficiency Program with certain  
2 modifications and requirements as described below.
- 3 c) Staff has recommended that APS continue to analyze ways to expand the proposed  
4 HVAC Efficiency Program throughout APS' service territory. Staff also has  
5 recommended that APS provide a report to Staff that presents the results of APS  
6 analysis commensurate with the 13-month filing requirement approved in  
7 Commission Decision No. 68488. The report should address the feasibility of  
8 expanding the program and APS should also provide information related to  
9 program participation by measure outside of the Phoenix-metropolitan area.
- 10 d) Staff has recommended that APS undertake customer education and marketing  
11 efforts that promote customer understanding that efficiency requirements for APS  
12 HVAC incentives are higher than minimum Energy Star® requirements, and that  
13 there are differences in efficiency requirements for an APS incentive and for a  
14 federal tax credit. In addition, APS should include reference to the Energy Star®  
15 website, Internal Revenue Service website, or other appropriate websites so  
16 customers can make an informed decision about which unit would most  
17 appropriately meet their needs. Staff also has recommended that APS take  
18 appropriate actions to aggressively educate HVAC contractors to ensure they have  
19 been informed about the differences in efficiency requirements for the APS  
20 incentive, the federal tax credit, and Energy Star® standards.
- 21 e) Staff has recommended that APS move forward with its implementation of the  
22 Quality Installation measure upon Commission approval. In addition, Staff has  
23 recommended that the Quality Installation measure be performed by APS Qualified  
24 Contractors who have been trained in Quality Installation techniques and a Manual  
25 J or equivalent calculation should be required as a component of the Quality  
26 Installation measure in order for a customer to be eligible for the incentive.
- 27 f) Staff has recommended that the incentive payments for the Quality Installation  
28 measure be separated from the incentive for the HVAC unit and be set at \$100. In  
addition, the Quality Installation measure should only reflect work associated with  
Quality Installation, such as HVAC equipment sizing, achieving manufacturer  
recommended airflow specifications, and refrigerant charge adjustment.
- g) Staff has recommended that the incentive payments for the HVAC System Testing  
and Repair measure be set at 75 percent of the incremental cost of the testing and  
repair work that was performed. Staff has also recommended that the incentive be  
capped at \$250.
- h) Staff has recommended that APS submit its MER contractors' research plan,  
including performance metrics, for each DSM program within the Portfolio Plan,  
excluding the Low Income Program. APS should submit the research plan for Staff  
review within 30 days of the development of each plan.
- i) Staff has recommended approval of the MER component of the Portfolio Plan with  
certain requirements regarding the research plan.

- 1 j) Staff has recommended that Planning and Administration costs for the New  
2 Construction Program, HVAC Efficiency Program, and the Consumer Products  
3 Program not exceed 10 percent of the total program budget.
- 4 k) Staff has recommended that APS should be limited to shifting a maximum of 25  
5 percent of budgeted funds between the New Construction Program, the HVAC  
6 Efficiency Program, and the Consumer Products Program per calendar year.
- 7 l) Staff has recommended that all financial incentives paid under the New  
8 Construction Program and the HVAC Efficiency Program be capped at a maximum  
9 of 75 percent of incremental cost.
- 10 m) Staff has recommended that APS include the 2006 - 2007 Energy Star® federal tax  
11 credits when calculating the 75 percent cap on incremental costs under the HVAC  
12 Efficiency Program.
- 13 n) Staff has recommended that APS inform the DSM Collaborative working group of  
14 progress and significant changes to budgets and/or incentives levels, under the  
15 Residential DSM programs included in the Portfolio Plan, prior to implementation  
16 of such changes.
- 17 o) Staff has recommended that the nature/intent of the incentives offered as well as the  
18 nature/intent of the Residential programs included in the Portfolio Plan not be  
19 changed without Commission approval.
- 20 p) Staff has recommended that APS provide incentives only on individual measures  
21 that are cost-effective.
- 22 q) Staff has recommended that APS include a description of its DSM marketing  
23 activities for all Residential programs included in the Portfolio Plan and provide  
24 Staff with examples of marketing materials in its semi-annual reports filed with the  
25 Commission.

26 8. Staff's recommendations as set forth in Finding of Fact No. 7 are reasonable and  
27 should be adopted.

#### 28 CONCLUSIONS OF LAW

1. APS is certificated to provide electric service as a public service corporation in the  
State of Arizona.

2. The Commission has jurisdiction over APS and over the subject matter of the  
Application.

3. The Commission, having reviewed the Application and Staff's Memorandum dated  
March 27, 2006, concludes that it is in the public interest to approve the Residential New

1 Construction Program, the Residential Existing Homes HVAC Program, Consumer Products  
2 flexibility, and the MER portion of APS' Portfolio Plan as modified herein.

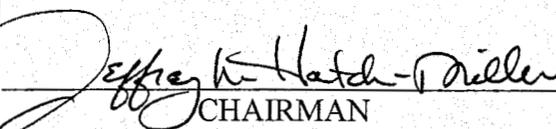
3 ORDER

4 IT IS THEREFORE ORDERED that the Residential New Construction Program, the  
5 Residential Existing Homes HVAC Program, Consumer Products flexibility, and the MER portion  
6 of APS' Portfolio Plan are approved as modified herein.

7 IT IS FURTHER ORDERED that the recommendations proposed by Staff listed in Finding  
8 of Fact No. 7 are approved.

9 IT IS FURTHER ORDERED that this decision should become effective immediately.

10 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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13 CHAIRMAN

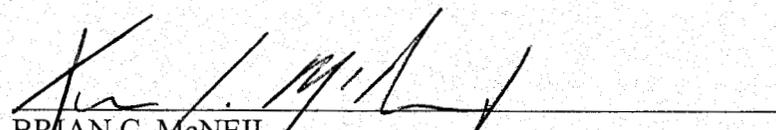
  
14 COMMISSIONER

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16 COMMISSIONER

COMMISSIONER

  
COMMISSIONER

17 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive  
18 Director of the Arizona Corporation Commission, have  
19 hereunto, set my hand and caused the official seal of this  
20 Commission to be affixed at the Capitol, in the City of  
Phoenix, this 12<sup>th</sup> day of April, 2006.

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23 BRIAN C. McNEIL  
Executive Director

24 DISSENT: \_\_\_\_\_

25 DISSENT: \_\_\_\_\_

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27 EGJ:JDA:EAA:lhmvJFW

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