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7 Attorneys for Southwest Energy Efficiency Project
8 and Western Resource Advocates

9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 JEFF HATCH-MILLER, CHARIMAN
11 WILLIAM A. MUNDELL
12 MIKE GLEASON
13 KRISTIN K. MAYES
14 BARRY WONG

15 IN THE MATTER OF THE APPLICATION OF
16 ARIZONA PUBLIC SERVICE COMPANY FOR
17 A HEARING TO DETERMINE THE FAIR
18 VALUE OF THE UTILITY PROPERTY OF THE
19 COMPANY FOR RATEMAKING PURPOSES,
20 TO FIX A JUST AND REASONABLE RATE OF
21 RETURN THEREON, TO APPROVE RATE
22 SCHEDULES DESIGNED TO DEVELOP SUCH
23 RETURN, AND TO AMEND DECISION NO.
24 67744

Docket No. E-01345A-05-0816
E-01345A-05-0826
E-01345A-05-0827

**NOTICE OF FILING
TESTIMONY SUMMARY**

25 Southwest Energy Efficiency Project, through its undersigned counsel, hereby provides
notice that it has this day filed the testimony summary of Jeffrey A. Schlegel in connection with
the above-captioned matter.

Arizona Corporation Commission

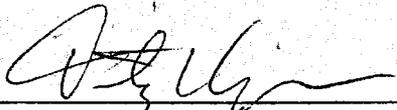
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1 DATED this 20th day of October, 2006.

2 ARIZONA CENTER FOR LAW IN
3 THE PUBLIC INTEREST

4 By 
5 Timothy M. Hogan

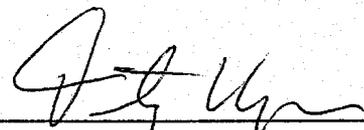
6 202 E. McDowell Rd., Suite 153
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9 ORIGINAL and 13 COPIES of
10 the foregoing filed this 20th day
of October, 2006, with:

11 Docketing Supervisor
12 Docket Control
Arizona Corporation Commission
13 1200 W. Washington
Phoenix, AZ 85007

14 COPIES of the foregoing
15 transmitted electronically
16 this 20th day of October, 2006, to:

17 All Parties of Record

18 
19 _____

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE COMPANY
FOR A HEARING TO DETERMINE THE
FAIR VALUE OF THE UTILITY PROPERTY
OF THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN, AND TO AMEND
DECISION NO. 67744.

DOCKET NOS. E-01345A-03-0816
E-01345A-05-0826
E-01345A-05-0827

Summary of Testimony

Jeff Schlegel
Southwest Energy Efficiency Project (SWEEP)

October 20, 2006

1 The Commission should authorize adequate funding to achieve the goals of the EES.
2 SWEEP estimates that energy efficiency funding of \$0.002 per kWh of retail energy sales
3 (2 mills) will be necessary to achieve the EES goals. In 2007, the third year of the 2005-
4 2007 Portfolio Plan, total DSM energy efficiency funding should be increased from about
5 \$25 million to \$38 million, an increase of about \$13 million. In 2008 and future years,
6 total DSM energy efficiency funding should be equivalent to \$0.002 (2 mills) per kWh of
7 retail energy sales, which would be \$56.8 million in 2008. The additional DSM funding
8 for 2008 would amount to \$40.8 million (the amount above the \$16 million per year
9 authorized in Decision No. 67744). Funding for any DSM demand response and load
10 management programs should be in addition to the energy efficiency program funding.

11
12 Inadequate funding for DSM programs and the resulting underachievement of cost-
13 effective energy efficiency would lead to higher total costs for customers.

14
15 Energy efficiency funding and cost recovery for the additional DSM funding and the total
16 DSM funding could be accomplished through funding in base rates, a DSM adjustment
17 mechanism, a system benefits surcharge, amortizing or capitalizing the DSM investments
18 over time (to reduce rate impacts in early years), or a combination of funding mechanisms.
19 SWEEP does not have a strong preference for one particular mechanism. SWEEP believes
20 it would be best to build on the existing Commission-approved funding mechanisms (base
21 rates and a DSM adjustor) and use a combination of mechanisms going forward.

22
23 APS should file an implementation plan to achieve the goals of the EES, covering the
24 2008-2020 program years, in the spring of 2007, at the same time APS refiles the Non-
25 Residential portion of its DSM Portfolio Plan (per Commission order). The EES
26 Implementation Plan should be developed by APS with input from and review by the
27 Collaborative DSM Working Group, which includes Staff and interested parties. The EES
28 Implementation Plan would be reviewed by Staff, and then be reviewed and approved by
29 the Commission prior to implementation for 2008 and future years.

30
31 APS may be able to meet the requirement set forth in Decision 67744 to spend \$48M on
32 Commission-approved DSM programs by the end of 2007, depending on customer and
33 market response to recently-implemented programs. However, it is possible that due to the
34 newness of the programs, the time lags associated with the implementation of some large
35 projects, and the delays in getting the programs in the field, including Staff review and
36 Commission approval taking longer than expected, APS may not meet the spending
37 requirement. As APS proposed,¹ any underspending of the \$48M through 2007 should be
38 carried over and spent in subsequent years, in addition to the annual budget for each of the
39 future program years. SWEEP requests an explicit Commission order on this issue in this
40 proceeding, in case APS does not meet its \$48M spending requirement.

41
42 SWEEP supports the proposed performance incentive, including the basis of 10% of net
43 benefits (APS share), and the cap of 10% of spending. This mechanism was reviewed and
44 supported by the DSM collaborative, and was included in the APS DSM Portfolio Plan.

45

¹ Rebuttal Testimony of Teresa Orlick, APS, p. 3.