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**BEFORE THE ARIZONA CORPORATION COMMISSION**

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF  
TUCSON ELECTRIC POWER COMPANY FOR  
THE ESTABLISHMENT OF JUST AND  
REASONABLE RATES AND CHARGES  
DESIGNED TO REALIZE A REASONABLE  
RATE OF RETURN ON THEIR FAIR VALUE  
OF ITS OPERATIONS THROUGHOUT THE  
STATE OF ARIZONA.

IN THE MATTER OF THE FILING BY  
TUCSON ELECTRIC POWER COMPANY TO  
AMEND DECISION NO. 62103.

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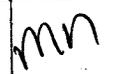
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AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

JUL -2 2008

DOCKETED BY 

Docket No. E-01933A-07-0402

Docket No. E-01933A-05-0650

**NOTICE OF FILING DIRECT  
TESTIMONY**

Southwest Energy Efficiency Project hereby provides notice of filing of the Direct  
Testimony of Jeff Schlegel regarding the Proposed Settlement Agreement filed in the  
above referenced matter.

1 DATED this 2<sup>nd</sup> day of July, 2008.

2 ARIZONA CENTER FOR LAW IN  
3 THE PUBLIC INTEREST

4  
5 By 

6 Timothy M. Hogan  
7 202 E. McDowell Rd., Suite 153  
8 Phoenix, Arizona 85004  
9 Attorneys for Southwest Energy Efficiency  
10 Project and Western Resource Advocates

11 ORIGINAL and 15 COPIES of  
12 the foregoing filed this 2<sup>nd</sup> day  
13 of July 2008, with:

14 Docketing Supervisor  
15 Docket Control  
16 Arizona Corporation Commission  
17 1200 W. Washington  
18 Phoenix, AZ 85007

19 COPIES of the foregoing  
20 electronically transmitted  
21 this 2<sup>nd</sup> day of July, 2008 to:

22 All Parties of Record  
23  
24  
25

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

MIKE GLEASON, CHAIRMAN  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF  
TUCSON ELECTRIC POWER COMPANY FOR  
THE ESTABLISHMENT OF JUST AND  
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ITS OPERATIONS THROUGHOUT THE  
STATE OF ARIZONA

DOCKET NO. E-01933A-07-0402

IN THE MATTER OF THE FILING BY  
TUCSON ELECTRIC POWER COMPANY TO  
AMEND DECISION NO. 62103

DOCKET NO. E-01933A-05-0650

Direct Testimony of

**Jeff Schlegel**  
**Southwest Energy Efficiency Project (SWEEP)**

July 2, 2008

**Direct Testimony of Jeff Schlegel, SWEEP  
Regarding the TEP Settlement Agreement  
Docket No. E-01933A-05-0650  
Docket No. E-01933A-07-0402**

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**Introduction**

1  
2  
3  
4 Q. Please state your name and business address.

5  
6 A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive,  
7 Tucson, Arizona 85704-3224.  
8

9  
10 Q. For whom and in what capacity are you testifying?

11  
12 A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP). I am  
13 the Arizona Representative for SWEEP.  
14

15  
16 Q. Did you submit testimony on behalf of SWEEP previously in this docket?

17  
18 A. Yes.  
19

20  
21 Q. What is the purpose of your testimony?

22  
23 A. I am addressing the Demand Side Management (DSM) issues in the Settlement  
24 Agreement.  
25

26  
27 **SWEEP's Position on the Settlement Agreement**  
28

29 Q. What is SWEEP's position on the TEP Settlement Agreement?

30  
31 A. SWEEP does not support or oppose the Settlement Agreement. SWEEP participated  
32 in the settlement discussions and decided not to support or oppose the Settlement  
33 Agreement. In the settlement discussions SWEEP focused primarily on the DSM  
34 issues. SWEEP's primary concerns were and are:  
35

36 1. TEP customers should receive the benefits of increased, cost-effective DSM  
37 programs as soon as possible. All customers should have the opportunity to  
38 reduce their energy costs through participation in DSM programs prior to the  
39 implementation of any rate increase. Delaying the implementation of cost-  
40 effective DSM programs disadvantages customers and increases the total costs  
41 customers pay.  
42

43 2. The Commission should approve the TEP-proposed DSM programs, based on  
44 timely review and analysis by Commission Staff.  
45

- 1           3. The DSM programs should be supported by adequate funding, ultimately through  
2           the DSM Adjustor being considered in this proceeding, and in the meantime  
3           (beginning in 2008) through a reallocation of funding back to DSM and/or an  
4           accounting order in this proceeding.  
5  
6

7                           **Commission Review of the TEP-Proposed DSM Program Portfolio**  
8

9           Q. Are Staff and the Commission reviewing TEP-proposed DSM programs, including  
10           new and expanded programs, in a separate, parallel docket?  
11

12           A. Yes, the TEP-proposed DSM programs are being reviewed in a separate docket  
13           (Docket No. E-01933A-07-0401) in parallel to this proceeding. SWEEP previously  
14           recommended the two parallel proceedings and supports this approach.  
15

16  
17           Q. Do you plan to comment on the specifics of the proposed DSM programs in your  
18           testimony in this proceeding?  
19

20           A. No.  
21

22  
23           Q. What is the status of Commission review and approval of the TEP-proposed DSM  
24           programs in the parallel docket?  
25

26           A. Several TEP DSM programs were approved by the Commission at the June 3, 2008  
27           and July 1, 2008 Open Meetings. SWEEP understands from Staff that the reviews of  
28           the remainder of the DSM programs (except for the Direct Load Control program<sup>1</sup>)  
29           are on schedule to be reviewed by the Commission at its Open Meeting on July 29-  
30           30, 2008.  
31

32           SWEEP supports this schedule, and appreciates the efforts of Staff and the  
33           Commission to review and approve the DSM programs in a timely manner, so that  
34           the programs can be implemented to benefit TEP customers as soon as possible, and  
35           prior to any increase in rates.  
36

---

<sup>1</sup> The review of the Direct Load Control program will be scheduled for later this year, per an understanding between TEP and Staff, which SWEEP accepts.

---

**DSM Cost Recovery and the DSM Adjustor Mechanism**

1  
2  
3 Q. Does SWEEP support the DSM Adjustor Mechanism described in the Settlement  
4 Agreement?

5  
6 A. Yes, SWEEP supports the use of a DSM Adjustor Mechanism for DSM cost-  
7 recovery, and supports the DSM Adjustor set forth in the Settlement Agreement.  
8 Specifically, SWEEP supports the DSM Adjustor mechanism recommended by Staff in  
9 its Direct Rate Design testimony in this proceeding, the initial funding level of the DSM  
10 Adjustor of \$6,384,625, and the initial DSM Adjustor rates of \$0.000639 per kWh for all  
11 kWh sales.  
12

13  
14 Q. Would timely Commission approval of DSM cost-recovery provide value to  
15 customers and be in the public interest?  
16

17 A. Yes, timely Commission approval of a DSM cost-recovery mechanism would speed  
18 the implementation of cost-effective DSM and energy efficiency programs approved  
19 by the Commission, to the benefit of TEP customers.  
20

21  
22 Q. Is an interim DSM cost-recovery mechanism necessary in this proceeding?  
23

24 A. Not at this time. TEP has indicated that the total DSM funding currently available in  
25 2008 (about \$3.3 million including some funding returned to DSM now that the  
26 REST surcharge has been implemented) is adequate to fund the existing and new  
27 DSM programs. If customer response to the programs in the latter half of 2008 is  
28 very strong and TEP finds that then-available DSM funding is inadequate, SWEEP  
29 would recommend an accounting mechanism to provide interim cost-recovery for  
30 Commission-approved DSM programs and expenditures, until such time that the  
31 DSM Adjustor or other mechanism is adopted by the Commission.  
32

33  
34 Q. Is the five-year (2008-2012) TEP-proposed DSM Plan and the proposed funding level  
35 of the DSM Adjustor Mechanism likely to be adequate over the next five years?  
36

37 A. No. SWEEP considers the TEP-proposed DSM portfolio to be an initial ramp up to a  
38 more complete portfolio of programs to address a wider range of customer needs and  
39 segments. It is likely that customer response to and participation in the DSM  
40 programs will grow over time, resulting in a need for additional funding. In addition,  
41 new measures may become available and new or expanded cost-effective programs  
42 may be proposed by TEP, Staff, SWEEP, or other stakeholders.  
43

44 Therefore, it is likely that additional DSM funding for Commission-approved DSM  
45 programs will be needed in future years, and probably much earlier than 2012, due

1 either to strong customer response to the programs currently being proposed, or to  
2 new or expanded DSM programs.

3  
4 For the Commission-approved, cost-effective DSM programs, the spending levels  
5 should be able to increase in between rate cases in response to program success and  
6 customer participation. The Commission and Staff should be notified of the DSM  
7 program spending increase, and the Commission can choose whether to not to take  
8 action on it; however, the spending increase for Commission-approved programs  
9 should not *require* Commission pre-approval or other action by the Commission.<sup>2</sup>

10  
11 TEP, Staff, SWEEP, or other stakeholders should be able to propose new DSM  
12 programs in between rate cases. New programs should be reviewed by Staff and  
13 approved by the Commission prior to implementation, consistent with current  
14 practice. The funding for new Commission-approved programs should be recovered  
15 through the DSM Adjustor.

16  
17  
18 **Other DSM Issues**

19  
20 Q. Are there other DSM issues that do not appear to be addressed specifically by the  
21 Settlement Agreement?

22  
23 A. Yes. SWEEP supports the DSM Performance Incentive proposed by TEP (Tom  
24 Hansen direct testimony, pgs. 14-15) and has supported a similar performance  
25 incentive mechanism for APS. In this performance-based incentive mechanism, TEP  
26 would have the opportunity to earn up to 10% of the measured net benefits from the  
27 eligible DSM programs, capped at 10% of the actual program spending. This is a  
28 positive incentive to encourage the achievement of net benefits, with at least 90% of  
29 the net benefits accruing to customers. It does not appear that the Settlement  
30 Agreement addressed this issue explicitly.

31  
32  
33 Q. Does that conclude your direct testimony?

34  
35 A. Yes.

---

<sup>2</sup> The Commission continues to have the authority and ability to initiate any DSM program revisions or spending adjustments it feels are appropriate, and Staff could provide any such recommendations to the Commission on its own initiative.