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AZ CORP COMMISSION  
DOCKET CONTROL

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

**BEFORE THE ARIZONA CORPORATION COMMISSION**

9 MIKE GLEASON, Chairman  
10 WILLIAM A. MUNDELL  
11 JEFF HATCH-MILLER  
12 KRISTIN K. MAYES  
13 GARY PIERCE

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

Docket No. E-01933A-07-0402

Docket No. E-01933A-05-0650

**NOTICE OF FILING SUMMARY OF  
DIRECT TESTIMONY**

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

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

Arizona Corporation Commission

**DOCKETED**

JUL 10 2008

DOCKETED BY

1 DATED this 10<sup>th</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 10<sup>th</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 10<sup>th</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  
REASONABLE RATES AND CHARGES  
DESIGNED TO REALIZE A REASONABLE  
RATE OF RETURN ON THE FAIR VALUE OF  
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

Summary of  
Direct Testimony of

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

July 10, 2008

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### Summary of SWEEP Testimony

SWEEP does not support or oppose the Settlement Agreement. In the settlement discussions SWEEP focused primarily on the DSM issues and SWEEP addressed the DSM issues in Mr. Schlegel's direct testimony.

Cost-effective DSM programs should be designed and implemented, and existing DSM programs revised and expanded, substantially and expeditiously, to serve TEP customers, so that more customers can reduce their electricity costs and mitigate the effects of any rate increase through increased energy efficiency.

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

The TEP-proposed DSM programs are being reviewed in a separate docket (Docket No. E-01933A-07-0401) in parallel to this proceeding. SWEEP previously recommended the two parallel proceedings. SWEEP supports this approach and the current schedule of Commission review. SWEEP appreciates the efforts of Staff and the Commission to review and approve the DSM programs in a timely manner, so that the programs can be implemented to benefit TEP customers as soon as possible, and prior to any increase in rates.

The DSM programs should be supported by adequate funding, ultimately through the DSM Adjustor being considered in this proceeding, and in the meantime (beginning in 2008 for Commission approved programs) through a reallocation of funding back to DSM and/or an accounting order (if determined to be necessary at a later date) in this proceeding. Timely Commission approval of a DSM cost-recovery mechanism would speed the implementation of cost-effective DSM and energy efficiency programs approved by the Commission, to the benefit of TEP customers.

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

Implementation of Commission-approved DSM programs should not be delayed until the approval of the DSM Adjustor in this proceeding. TEP has indicated that the total DSM funding currently available in 2008 (about \$3.3 million including some funding returned to DSM now that the REST surcharge has been implemented) is adequate to fund the existing and new DSM programs. Therefore, an interim DSM cost-recovery mechanism

1 in this proceeding is not necessary at this time. However, if customer response to the  
2 programs in the latter half of 2008 is very strong and TEP finds that then-available DSM  
3 funding is inadequate, SWEEP would recommend an accounting mechanism to provide  
4 interim cost-recovery for Commission-approved DSM programs and expenditures, until  
5 such time that the DSM Adjustor or other mechanism is adopted by the Commission.

6  
7 The five-year (2008-2012) TEP-proposed DSM Plan and the proposed funding level of  
8 the DSM Adjustor Mechanism is unlikely to be adequate over the next five years.  
9 SWEEP considers the TEP-proposed DSM portfolio to be an initial ramp up to a more  
10 complete portfolio of programs to address a wider range of customer needs and segments.

11  
12 It is likely that additional DSM funding for Commission-approved DSM programs will  
13 be needed in future years, and probably much earlier than 2012, due either to strong  
14 customer response to the programs currently being proposed, or to new or expanded  
15 DSM programs. For the Commission-approved, cost-effective DSM programs, the  
16 spending levels should be able to increase in between rate cases in response to program  
17 success and customer participation. The Commission and Staff should be notified of the  
18 DSM program spending increase, and the Commission can choose whether to not to take  
19 action on it; however, the spending increase for Commission-approved programs should  
20 not *require* Commission pre-approval or other action by the Commission.<sup>1</sup> In addition,  
21 TEP, Staff, SWEEP, or other stakeholders should be able to propose new DSM programs  
22 in between rate cases, for Commission and Staff review.

23  
24 SWEEP supports the DSM Performance Incentive as clarified in Staff's rebuttal  
25 testimony (Keene Rebuttal, page 3). In this performance-based incentive mechanism,  
26 TEP 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 the  
29 net benefits accruing to customers.

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<sup>1</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.