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BEFORE THE ARIZONA CORPORATION COMMISSION

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2009 MAR 26 P 4: 18  
AZ CORP COMMISSION  
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Arizona Corporation Commission

DOCKETED

MAR 26 2009

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IN THE MATTER OF THE GENERIC  
INVESTIGATION INTO OF REGULATORY  
AND RATE INCENTIVES FOR GAS AND  
ELECTRIC UTILITIES

) DOCKET NO. E-00000J-08-0314  
) DOCKET NO. G-00000C-08-0314

)  
) **TUCSON ELECTRIC POWER  
COMPANY, UNS ELECTRIC,  
INC., UNS GAS, INC.'S  
RESPONSES TO COMMISSION  
REQUESTS**

During the Workshop on Energy Efficiency held on March 6, 2009 at the Arizona Corporation Commission ("Commission"), the Commission requested interested parties to respond to questions in preparation for the next Workshop on Energy Efficiency on March 27, 2009. In exploring the feasibility of an energy efficiency standard, the Commission requested information regarding bill impacts if an energy efficiency standard of 1%, 1.5% or 2% of total sales were adopted. Additionally, the Commission requested an analysis of how an average customer's bill would be impacted if: (1) sales losses from an energy efficiency standard were recoverable through a lost revenue adjuster, (2) sales losses from an energy efficiency standard were recoverable through the use of a future test year, or (3) a performance incentive program were adopted. Finally, the Commission requested information regarding what impact, the adoption of an energy efficiency standard and the associated reduction in demand for energy would have on future resource requirements. Tucson Electric Power Company ("TEP"), UNS Electric, Inc. ("UNS Electric"), and UNS Gas, Inc. ("UNS Gas"), collectively UniSource Energy Corporation ("UniSource Energy"), supports the Commission's efforts in this docket and hereby respectfully responds to the Commission's questions.

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**I. Short Answer.**

UniSource Energy has prepared a table, shown below, that shows the approximate bill impacts to an average residential customer under the various energy efficiency standards that the Commission identified in the March 6, 2009 Workshop on Energy Efficiency. In preparing this table, UniSource Energy assumed full recovery of lost margin, full recovery of demand-side management (“DSM”) portfolio costs, that 100% of the efficiency standard was met, and that a performance incentive was approved. Further, UniSource Energy assumed energy efficiency standards of 0.75%, 1% and 1.5% for UNS Gas for reasons which will be explained in Section II.

**UniSource Energy**  
Percentage Increase to Average Residential Bills

<b><i>Tucson Electric Power Company</i></b>				
Efficiency Standard	Year 1	Year 5	Year 12	
1.00%	0.8%	5.0%	10.2%	
1.50%	0.8%	6.5%	14.0%	
2.00%	0.8%	6.5%	17.2%	

<b><i>UNS Electric</i></b>				
Efficiency Standard	Year 1	Year 5	Year 12	
1.00%	0.3%	2.6%	6.2%	
1.50%	0.3%	3.2%	8.6%	
2.00%	0.3%	3.2%	10.5%	

<b><i>UNS Gas</i></b>				
Efficiency Standard	Year 1	Year 5	Year 12	
0.75%	0.5%	2.0%	3.6%	
1.00%	0.5%	2.4%	4.4%	
1.50%	0.5%	2.5%	5.8%	

(Assumes Full Recovery of Lost Margin, DSM Portfolio Spending, and 100% Performance Incentive with no additional assumed rate increases.)

1 The difference between the use of an annual adjuster or a future test year to recover sales losses  
2 amounts primarily to a timing issue that will be addressed in Section III. Further, the adoption of  
3 an energy efficiency standard and its impact on resource planning will be addressed in Section V.  
4

5 **II. What is the potential bill impact associated with the recovery of portfolio cost to an**  
6 **average residential customer if an energy efficiency standard is set at 1%, 1.5% or**  
7 **2% of annual energy sales?**

8 In Exhibit 1, UniSource Energy provides the analysis for average customer percentage bill  
9 impact for TEP and UNS Electric customers over a 12 year period if a 1%, 1.5% or 2% energy  
10 efficiency standard was adopted. UniSource Energy conducted a high-level analysis of the  
11 potential bill impact if an energy efficiency standard of 1%, 1.5%, or 2% of annual electric sales  
12 was adopted. In each of the three case scenarios, UniSource Energy forecasted a ramp-up savings  
13 schedule for TEP and UNS Electric starting with 0.5% of savings as percent of sales in 2009,  
14 increasing annually in increments of 0.25% until the respective targets of 1%, 1.5% and 2% are  
15 met.

16 For UNS Gas, UniSource Energy forecasted a lower efficiency standard. Relevant  
17 industry experience has demonstrated difficulties in achieving natural gas energy efficiency  
18 savings at levels comparable to savings for electric energy efficiency programs. Consequently,  
19 UNS Gas savings targets are less than the TEP and UNS Electric targets. UniSource Energy  
20 forecasted a ramp-up savings schedule for UNS Gas starting with 0.5% of savings as percent of  
21 sales in 2009, increasing annually in increments of 0.25% until the respective UNS Gas targets of  
22 0.75%, 1% and 1.5% are met.

23 To expedite this analysis, UniSource Energy relied on a previously conducted  
24 benchmarking analysis completed by Summit Blue Consulting, attached as Exhibit 2, which  
25 comprised a review of approximately 20 other utilities across North America. Using that  
26 information, UniSource Energy applied a linear equation with a time series growth factor to the  
27 data set which details an association between spending as percent of revenue and savings as a

1 percent of sales. This equation was the following:  $\text{Spending as \% of Revenue} = (\text{Savings as \% of}$   
2  $\text{Sales} + 0.0011) / 0.5775$ ) with an applied time series growth factor up to additional 1% - 1.5%. The  
3 growth factor was applied to account for the increasing difficulty to achieve additional savings  
4 after initial savings on "easier" programs (such as lighting) have been realized.

5 Based on information completed by Summit Blue Consulting of 20 utilities across the  
6 United States the median savings as percent of sales was 0.8% at an average cost of 1.8% of  
7 revenue. UniSource Energy's analysis indicates that achieving savings of 1.5% of annual sales  
8 from DSM programs is an aggressive savings target. A more realistic and achievable target is  
9 acquiring savings equivalent of 1% of sales. Further, it would be wise to ramp-up the efficiency  
10 goal over a period of 5-7 years to allow both the energy efficiency program implementers and the  
11 marketplace (trade allies, retail partners, etc.) to become more experienced with efficiency and the  
12 development of an aggressive culture of achieving energy efficiency goals. For UNS Gas,  
13 UniSource Energy's analysis indicates that achieving savings at a level of 1.5% of sales is  
14 unrealistic, and suggests consideration of a lower higher bound savings target of 0.75% of sales.

15  
16 **III. What is the potential bill impact to an average customer if sales losses from an energy**  
17 **efficiency standard were recoverable through a lost revenue adjuster or through the**  
18 **use of a future test year?**

19 In Exhibit 1, UniSource Energy provides the analysis for average customer percentage bill  
20 impact for TEP and UNS Electric customers over a 12 year period for full recovery of lost margin  
21 assuming the three different efficiency standards. The analysis shows that the potential bill impact  
22 to an average residential customer is one of timing. Use of rate case adjustments under either a  
23 historical or future test year result in fluctuating bill impacts tied to the implementation of new  
24 rates and not to timing and magnitude of typical margin recovery. Rate case adjustments, under  
25 either a historical or future test year (and depending on design and any approval to defer recovery  
26 between rate cases), will provide recovery, but recovery is delayed and bill impacts will be  
27 magnified. Therefore, rate case adjustments result in improper price signals and an increase in

1 carrying costs to UniSource Energy that the customer will ultimately have to pay. A Lost  
2 Revenue Adjuster provides the closest approximation of the timing and magnitude of margin  
3 recovery that would have occurred had sales not been reduced by the effects of energy efficiency  
4 programs

5 The public interest is served through energy use reductions attributable to energy  
6 efficiency. However, energy efficiency results in lost sales for the utilities and these lost sales  
7 represent the “margin” that pays for the fixed cost of investments already made by the utility to  
8 serve existing customers. In order to align public interest with a utility’s interest in meeting fixed  
9 costs obligations, UniSource Energy believes that the Commission should implement some  
10 recovery mechanism whereby utilities can recoup 100% of the lost sales margin in a timely and  
11 transparent way. Whether this recovery mechanism is called a “decoupler” or an “adjustment  
12 factor” is irrelevant so long as the lost margin is returned promptly enough so there is no  
13 opportunity cost loss associated with the time value of money. Ideally, the lost margin would be  
14 returned at the same time it would have been earned absent the energy efficiency program.  
15 UniSource Energy believes that stakeholders should be able to formulate some forward looking  
16 approach that will optimally fund fixed cost recovery and take away any disincentive to utilities’  
17 wholehearted support and active encouragement of energy efficiency.

18 UniSource Energy views recovery of lost margin through rate case adjustments as a  
19 “second-best” approach. While rate case adjustments could be formulated to recover lost margin,  
20 they are subject to regulatory lag and would require rates to be set higher initially to provide any  
21 reasonable assurance of recovery of the anticipated lost margin over the expected life of the rates.  
22 Even with a future test-year approach, margin recovery would be delayed, and utilities would lose  
23 margin while waiting for new rates to be implemented.

24 UniSource Energy supports a transparent margin recovery mechanism. Stakeholders have  
25 the right to know what energy efficiency programs are costing, with cost recovery mirroring the  
26 level and timing of cost incursion. TEP prefers an on-going annual recovery mechanism to avoid  
27 the type of “spiked” recovery that occurs in the context of a rate case. In a rate case-to-rate case

1 treatment recovery process, the utility loses margin in the interim between rate cases and the  
2 customer ultimately pays for increases at the time of rate implementation. Also, a forward looking  
3 recovery mechanism that attempts to match recovery with incurrence supports the type of clear  
4 and transparent pricing necessary for informed decision-making that balances the costs of energy  
5 efficiency with its benefits.

6  
7 **IV. What is the potential bill impact to an average residential customer if the**  
8 **Commission adopts a performance incentive program?**

9 In Exhibit 1, UniSource Energy provides the analysis for average customer percentage bill  
10 impact for TEP and UNS Electric customers over a 12 year period for a performance incentive of  
11 85%, 100%, and 115% assuming the three different efficiency standards. To align public policy  
12 with the interests of utility investors, performance incentives should offer return on invested  
13 capital just as plant investment offers such return. Given the aggressive proposed portfolio  
14 standard UniSource Energy is recommending the following schedule for performance incentives<sup>1</sup>.

- 15 • 85% of Goal is met: Lower of 15% net benefits or 15% cap on spending
- 16 • 100% of Goal is met: Lower of 20% net benefits or 20% cap on spending
- 17 • 115% of Goal is met: Lower of 25% net benefits or 25% cap on spending

18  
19 **V. What impact would an Energy Efficiency Standard have on future resource**  
20 **requirements?**

21 UniSource Energy is in the process of compiling information to support an integrated  
22 resource plan. Absent those results, UniSource Energy cannot at this time provide an accurate  
23 estimate of what future resources would be impacted by the adoption of an energy efficiency  
24 standard. UniSource Energy will continue to work in the coming months on this issue and should  
25 be able to provide more definitive answers in the future. The absence of this information is not in  
26 any way delaying UniSource Energy from implementing any DSM or energy efficiency programs.

27  

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<sup>1</sup> The analysis assumes the lower of is the spending cap with no incentive under 85%.

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**VI. What are the portfolio costs that were used in UniSource Energy's analysis?**

Exhibit 1 attached hereto, shows current estimates for the costs of upcoming programs for TEP, UNS Electric, and UNS Gas under various scenarios as outlined above. The costs do not include current DSM and energy efficiency programs.

Exhibit 1 contains three savings ramp-up scenarios as described under the "Efficiency Standard" section. TEP's scenarios are covered on pages 1 through 3, UNS Electric's scenarios are covered on pages 4 through 6 and UNS Gas' scenarios are covered on pages 7 through 9. Each page of Exhibit 1 shows a clear breakdown between (i) DSM Portfolio Spending, (ii) the Performance Incentive (at 85%, 100%, and 115%), and (iii) Lost Margin Recovery. Cumulative totals (e.g., total \$/kWh for DSM Portfolio, Performance Incentive at 115%, and Lost Margin Recovery) are shown also for convenience. Results are shown in \$/kWh, and as an impact on an average residential customer's bill.

It is crucial to note that the portfolio spending is an indication of the potential relationship between spending and savings, and may vary significantly (e.g. potential up to plus or minus 20%) depending on the specific utility territory, composition of the DSM portfolio (e.g. is the DSM portfolio heavily weighted toward residential lighting, role of demand response, level of investment in the low income sector, etc.). A more detailed and utility specific situational assessment for UniSource Energy would be needed to fine-tune anticipated correlation between spending and savings for TEP and UNS Electric's existing and projected future DSM programs, which would likely help to reduce the anticipated range of results.

If DSM is to be taken as a serious resource addition to the utilities' portfolios mix, the Commission should adopt similar incentives to the traditional return utilities recover on assets. This not only means the recovery of portfolio programs costs but the removal of disincentives from lower energy sales (i.e. recovery of fixed costs and a reasonable return). Add to this a performance incentive for successful program implementation and utilities can be creative and aggressive with DSM portfolios. As stated above, UniSource Energy believes that a properly

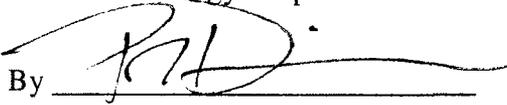
1 designed fixed cost recovery mechanism will take away any disincentive to utilities' wholehearted  
2 support and active encouragement of DSM. Exhibit 3 summarizes the average cost of each of the  
3 components over a 12 year period. The initial years would require a lower spending level and  
4 ramp up to full implementation with higher spending levels.

5  
6 **VII. Conclusion.**

7 UniSource Energy is supportive of a robust energy efficiency standard that is cost effective  
8 from a societal standpoint, provides for the full recovery of costs and lost margin associated with  
9 the program and includes an incentive program that fairly compensates UniSource Energy for the  
10 lost revenue opportunities due to demand reductions.

11  
12 RESPECTFULLY SUBMITTED this 26<sup>th</sup> day of March 2009.

13 UniSource Energy Corporation

14  
15 By 

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27 Original and 13 copies of the foregoing  
filed this 26<sup>th</sup> day of March, 2009, with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
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1 Copy of the foregoing hand-delivered  
2 this 26<sup>th</sup> day of March, 2009, to:

3 Chairman Kristen K. Mayes  
4 Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

5 Commissioner Gary Pierce  
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# **EXHIBIT 1**

**Tucson Electric Power Company**

**Case 1: DSM Savings Standard (Starting at 0.50% of Sales Increasing to 1%)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Components (in \$/kWh):</b>												
DSM Portfolio Spending	\$ 0.000284	\$ 0.000685	\$ 0.001237	\$ 0.001608	\$ 0.001931	\$ 0.002170	\$ 0.002286	\$ 0.002307	\$ 0.002358	\$ 0.002449	\$ 0.002494	\$ 0.002561
Performance Incentive												
at 85%	\$ 0.000143	\$ 0.000202	\$ 0.000284	\$ 0.000339	\$ 0.000387	\$ 0.000422	\$ 0.000439	\$ 0.000442	\$ 0.000449	\$ 0.000463	\$ 0.000469	\$ 0.000479
at 100%	\$ 0.000190	\$ 0.000269	\$ 0.000379	\$ 0.000452	\$ 0.000516	\$ 0.000563	\$ 0.000585	\$ 0.000589	\$ 0.000599	\$ 0.000617	\$ 0.000625	\$ 0.000638
at 115%	\$ 0.000238	\$ 0.000337	\$ 0.000473	\$ 0.000565	\$ 0.000645	\$ 0.000704	\$ 0.000732	\$ 0.000736	\$ 0.000748	\$ 0.000771	\$ 0.000782	\$ 0.000798
Lost Margin	\$ 0.000302	\$ 0.000755	\$ 0.001364	\$ 0.001971	\$ 0.002588	\$ 0.003207	\$ 0.003829	\$ 0.004458	\$ 0.005093	\$ 0.005733	\$ 0.006381	\$ 0.007032

**Cumulative Totals for Components For Each Scenario (\$/kWh)**

Only DSM Spending	\$ 0.000284	\$ 0.000685	\$ 0.001237	\$ 0.001608	\$ 0.001931	\$ 0.002170	\$ 0.002286	\$ 0.002307	\$ 0.002358	\$ 0.002449	\$ 0.002494	\$ 0.002561
DSM and Perf. Incentive												
at 85% Perf Incentive	\$ 0.000427	\$ 0.000887	\$ 0.001521	\$ 0.001946	\$ 0.002318	\$ 0.002592	\$ 0.002725	\$ 0.002749	\$ 0.002807	\$ 0.002912	\$ 0.002963	\$ 0.003039
at 100% Perf Incentive	\$ 0.000474	\$ 0.000955	\$ 0.001616	\$ 0.002059	\$ 0.002447	\$ 0.002733	\$ 0.002871	\$ 0.002896	\$ 0.002956	\$ 0.003066	\$ 0.003119	\$ 0.003199
at 115% Perf Incentive	\$ 0.000522	\$ 0.001022	\$ 0.001710	\$ 0.002172	\$ 0.002576	\$ 0.002874	\$ 0.003017	\$ 0.003043	\$ 0.003106	\$ 0.003220	\$ 0.003276	\$ 0.003358
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	\$ 0.000728	\$ 0.001642	\$ 0.002885	\$ 0.003917	\$ 0.004906	\$ 0.005799	\$ 0.006554	\$ 0.007206	\$ 0.007899	\$ 0.008645	\$ 0.009344	\$ 0.010072
at 100% Perf Incentive	\$ 0.000776	\$ 0.001709	\$ 0.002979	\$ 0.004030	\$ 0.005035	\$ 0.005940	\$ 0.006700	\$ 0.007353	\$ 0.008049	\$ 0.008800	\$ 0.009501	\$ 0.010231
at 115% Perf Incentive	\$ 0.000823	\$ 0.001777	\$ 0.003074	\$ 0.004143	\$ 0.005164	\$ 0.006081	\$ 0.006847	\$ 0.007501	\$ 0.008199	\$ 0.008954	\$ 0.009657	\$ 0.010391

**% Increase to Average Residential Customer Bill by Component**

DSM Portfolio Spending	0.3%	0.7%	1.2%	1.6%	1.9%	2.2%	2.3%	2.3%	2.3%	2.4%	2.5%	2.6%
Performance Incentive												
at 85%	0.1%	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%
at 100%	0.2%	0.3%	0.4%	0.4%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
at 115%	0.2%	0.3%	0.5%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%
Lost Margin	0.3%	0.8%	1.4%	2.0%	2.6%	3.2%	3.8%	4.4%	5.1%	5.7%	6.4%	7.0%

**% Increase to Average Residential Customer Bill - For Each Scenario**

Only DSM Spending	0.3%	0.7%	1.2%	1.6%	1.9%	2.2%	2.3%	2.3%	2.3%	2.4%	2.5%	2.6%
DSM and Perf. Incentive												
at 85% Perf Incentive	0.4%	0.9%	1.5%	1.9%	2.3%	2.6%	2.7%	2.7%	2.8%	2.9%	3.0%	3.0%
at 100% Perf Incentive	0.5%	1.0%	1.6%	2.1%	2.4%	2.7%	2.9%	2.9%	2.9%	3.1%	3.1%	3.2%
at 115% Perf Incentive	0.5%	1.0%	1.7%	2.2%	2.6%	2.9%	3.0%	3.0%	3.1%	3.2%	3.3%	3.3%
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	0.7%	1.6%	2.9%	3.9%	4.9%	5.8%	6.5%	7.2%	7.9%	8.6%	9.3%	10.0%
at 100% Perf Incentive	0.8%	1.7%	3.0%	4.0%	5.0%	5.9%	6.7%	7.3%	8.0%	8.8%	9.5%	10.2%
at 115% Perf Incentive	0.8%	1.8%	3.1%	4.1%	5.1%	6.1%	6.8%	7.5%	8.2%	8.9%	9.6%	10.3%

**Tucson Electric Power Company**

**Case 2: DSM Savings Standard (Starting at 0.50% of Sales Increasing to 1.5%)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Components:</b>												
DSM Portfolio Spending	\$ 0.000284	\$ 0.000685	\$ 0.001237	\$ 0.002022	\$ 0.002772	\$ 0.003036	\$ 0.003165	\$ 0.003184	\$ 0.003246	\$ 0.003364	\$ 0.003421	\$ 0.003506
<b>Performance Incentive</b>												
at 85%	\$ 0.000143	\$ 0.000202	\$ 0.000284	\$ 0.000401	\$ 0.000513	\$ 0.000552	\$ 0.000571	\$ 0.000573	\$ 0.000582	\$ 0.000600	\$ 0.000608	\$ 0.000620
at 100%	\$ 0.000190	\$ 0.000269	\$ 0.000379	\$ 0.000534	\$ 0.000684	\$ 0.000736	\$ 0.000761	\$ 0.000765	\$ 0.000776	\$ 0.000800	\$ 0.000811	\$ 0.000827
at 115%	\$ 0.000238	\$ 0.000337	\$ 0.000473	\$ 0.000668	\$ 0.000855	\$ 0.000920	\$ 0.000952	\$ 0.000956	\$ 0.000971	\$ 0.000999	\$ 0.001013	\$ 0.001034
Lost Margin	\$ 0.000302	\$ 0.000755	\$ 0.001364	\$ 0.002126	\$ 0.003055	\$ 0.003988	\$ 0.004926	\$ 0.005871	\$ 0.006827	\$ 0.007791	\$ 0.008765	\$ 0.009744
<b>Cumulative Totals for Components</b>												
Only DSM Spending	\$ 0.000284	\$ 0.000685	\$ 0.001237	\$ 0.002022	\$ 0.002772	\$ 0.003036	\$ 0.003165	\$ 0.003184	\$ 0.003246	\$ 0.003364	\$ 0.003421	\$ 0.003506
<b>DSM and Perf. Incentive</b>												
at 85% Perf Incentive	\$ 0.000427	\$ 0.000887	\$ 0.001521	\$ 0.002423	\$ 0.003285	\$ 0.003588	\$ 0.003736	\$ 0.003757	\$ 0.003829	\$ 0.003963	\$ 0.004029	\$ 0.004127
at 100% Perf Incentive	\$ 0.000474	\$ 0.000955	\$ 0.001616	\$ 0.002556	\$ 0.003456	\$ 0.003772	\$ 0.003927	\$ 0.003949	\$ 0.004023	\$ 0.004163	\$ 0.004231	\$ 0.004334
at 115% Perf Incentive	\$ 0.000522	\$ 0.001022	\$ 0.001710	\$ 0.002690	\$ 0.003627	\$ 0.003956	\$ 0.004117	\$ 0.004140	\$ 0.004217	\$ 0.004363	\$ 0.004434	\$ 0.004540
<b>DSM, Perf Incentive, Lost Margin</b>												
at 85% Perf Incentive	\$ 0.000728	\$ 0.001642	\$ 0.002885	\$ 0.004548	\$ 0.006340	\$ 0.007576	\$ 0.008662	\$ 0.009629	\$ 0.010656	\$ 0.011754	\$ 0.012793	\$ 0.013871
at 100% Perf Incentive	\$ 0.000776	\$ 0.001709	\$ 0.002979	\$ 0.004682	\$ 0.006511	\$ 0.007760	\$ 0.008852	\$ 0.009820	\$ 0.010850	\$ 0.011954	\$ 0.012996	\$ 0.014077
at 115% Perf Incentive	\$ 0.000823	\$ 0.001777	\$ 0.003074	\$ 0.004816	\$ 0.006682	\$ 0.007944	\$ 0.009042	\$ 0.010011	\$ 0.011044	\$ 0.012154	\$ 0.013199	\$ 0.014284
<b>% Increase to Average Residential Customer by Component</b>												
DSM Portfolio Spending	0.3%	0.7%	1.2%	2.0%	2.8%	3.0%	3.2%	3.2%	3.2%	3.4%	3.4%	3.5%
<b>Performance Incentive</b>												
at 85%	0.1%	0.2%	0.3%	0.4%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
at 100%	0.2%	0.3%	0.4%	0.5%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
at 115%	0.2%	0.3%	0.5%	0.7%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Lost Margin	0.3%	0.8%	1.4%	2.1%	3.0%	4.0%	4.9%	5.8%	6.8%	7.8%	8.7%	9.7%
<b>% Increase to Average Residential Customer - Totals</b>												
Only DSM Spending	0.3%	0.7%	1.2%	2.0%	2.8%	3.0%	3.2%	3.2%	3.2%	3.4%	3.4%	3.5%
<b>DSM and Perf. Incentive</b>												
at 85% Perf Incentive	0.4%	0.9%	1.5%	2.4%	3.3%	3.6%	3.7%	3.7%	3.8%	3.9%	4.0%	4.1%
at 100% Perf Incentive	0.5%	1.0%	1.6%	2.5%	3.4%	3.8%	3.9%	3.9%	4.0%	4.1%	4.2%	4.3%
at 115% Perf Incentive	0.5%	1.0%	1.7%	2.7%	3.6%	3.9%	4.1%	4.1%	4.2%	4.3%	4.4%	4.5%
<b>DSM, Perf Incentive, Lost Margin</b>												
at 85% Perf Incentive	0.7%	1.6%	2.9%	4.5%	6.3%	7.5%	8.6%	9.6%	10.6%	11.7%	12.7%	13.8%
at 100% Perf Incentive	0.8%	1.7%	3.0%	4.7%	6.5%	7.7%	8.8%	9.8%	10.8%	11.9%	12.9%	14.0%
at 115% Perf Incentive	0.8%	1.8%	3.1%	4.8%	6.7%	7.9%	9.0%	10.0%	11.0%	12.1%	13.1%	14.2%

**Tucson Electric Power Company**

**Case 3: DSM Savings Standard (Starting at 0.50% of Sales Increasing to 2.0%)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Components:</b>												
DSM Portfolio Spending	\$ 0.000284	\$ 0.000685	\$ 0.001237	\$ 0.002022	\$ 0.002772	\$ 0.003469	\$ 0.004045	\$ 0.004061	\$ 0.004135	\$ 0.004278	\$ 0.004347	\$ 0.004452
Performance Incentive												
at 85%	\$ 0.000143	\$ 0.000202	\$ 0.000284	\$ 0.000401	\$ 0.000513	\$ 0.000617	\$ 0.000703	\$ 0.000705	\$ 0.000716	\$ 0.000737	\$ 0.000747	\$ 0.000762
at 100%	\$ 0.000190	\$ 0.000269	\$ 0.000379	\$ 0.000534	\$ 0.000684	\$ 0.000823	\$ 0.000937	\$ 0.000940	\$ 0.000954	\$ 0.000982	\$ 0.000996	\$ 0.001016
at 115%	\$ 0.000238	\$ 0.000337	\$ 0.000473	\$ 0.000668	\$ 0.000855	\$ 0.001028	\$ 0.001172	\$ 0.001175	\$ 0.001193	\$ 0.001228	\$ 0.001245	\$ 0.001271
Lost Margin	\$ 0.000302	\$ 0.000755	\$ 0.001364	\$ 0.002126	\$ 0.003055	\$ 0.004146	\$ 0.005402	\$ 0.006668	\$ 0.007946	\$ 0.009235	\$ 0.010537	\$ 0.011846
<b>Cumulative Totals for Components</b>												
Only DSM Spending	\$ 0.000284	\$ 0.000685	\$ 0.001237	\$ 0.002022	\$ 0.002772	\$ 0.003469	\$ 0.004045	\$ 0.004061	\$ 0.004135	\$ 0.004278	\$ 0.004347	\$ 0.004452
DSM and Perf. Incentive												
at 85% Perf Incentive	\$ 0.000427	\$ 0.000887	\$ 0.001521	\$ 0.002423	\$ 0.003285	\$ 0.004086	\$ 0.004748	\$ 0.004766	\$ 0.004851	\$ 0.005015	\$ 0.005094	\$ 0.005214
at 100% Perf Incentive	\$ 0.000474	\$ 0.000955	\$ 0.001616	\$ 0.002556	\$ 0.003456	\$ 0.004292	\$ 0.004982	\$ 0.005001	\$ 0.005089	\$ 0.005260	\$ 0.005343	\$ 0.005468
at 115% Perf Incentive	\$ 0.000522	\$ 0.001022	\$ 0.001710	\$ 0.002690	\$ 0.003627	\$ 0.004497	\$ 0.005216	\$ 0.005236	\$ 0.005328	\$ 0.005506	\$ 0.005592	\$ 0.005722
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	\$ 0.000728	\$ 0.001642	\$ 0.002885	\$ 0.004548	\$ 0.006340	\$ 0.008232	\$ 0.010150	\$ 0.011434	\$ 0.012797	\$ 0.014250	\$ 0.015631	\$ 0.017060
at 100% Perf Incentive	\$ 0.000776	\$ 0.001709	\$ 0.002979	\$ 0.004682	\$ 0.006511	\$ 0.008438	\$ 0.010384	\$ 0.011669	\$ 0.013035	\$ 0.014495	\$ 0.015880	\$ 0.017314
at 115% Perf Incentive	\$ 0.000823	\$ 0.001777	\$ 0.003074	\$ 0.004816	\$ 0.006682	\$ 0.008643	\$ 0.010618	\$ 0.011904	\$ 0.013274	\$ 0.014741	\$ 0.016129	\$ 0.017568
<b>% Increase to Average Residential Customer by Component</b>												
DSM Portfolio Spending	0.3%	0.7%	1.2%	2.0%	2.8%	3.5%	4.0%	4.0%	4.1%	4.3%	4.3%	4.4%
Performance Incentive												
at 85%	0.1%	0.2%	0.3%	0.4%	0.5%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%
at 100%	0.2%	0.3%	0.4%	0.5%	0.7%	0.8%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%
at 115%	0.2%	0.3%	0.5%	0.7%	0.9%	1.0%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%
Lost Margin	0.3%	0.8%	1.4%	2.1%	3.0%	4.1%	5.4%	6.6%	7.9%	9.2%	10.5%	11.8%
<b>% Increase to Average Residential Customer - Totals</b>												
Only DSM Spending	0.3%	0.7%	1.2%	2.0%	2.8%	3.5%	4.0%	4.0%	4.1%	4.3%	4.3%	4.4%
DSM and Perf. Incentive												
at 85% Perf Incentive	0.4%	0.9%	1.5%	2.4%	3.3%	4.1%	4.7%	4.7%	4.8%	5.0%	5.1%	5.2%
at 100% Perf Incentive	0.5%	1.0%	1.6%	2.5%	3.4%	4.3%	5.0%	5.0%	5.1%	5.2%	5.3%	5.4%
at 115% Perf Incentive	0.5%	1.0%	1.7%	2.7%	3.6%	4.5%	5.2%	5.2%	5.3%	5.5%	5.6%	5.7%
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	0.7%	1.6%	2.9%	4.5%	6.3%	8.2%	10.1%	11.4%	12.7%	14.2%	15.6%	17.0%
at 100% Perf Incentive	0.8%	1.7%	3.0%	4.7%	6.5%	8.4%	10.3%	11.6%	13.0%	14.4%	15.8%	17.2%
at 115% Perf Incentive	0.8%	1.8%	3.1%	4.8%	6.7%	8.6%	10.6%	11.9%	13.2%	14.7%	16.1%	17.5%

**UNS Electric**

**Case 1-DSM Savings Standard (Starting at 0.50% of Sales Increasing to 1%)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Components (in \$/kWh):</b>												
DSM Portfolio Spending	\$ 0.000000	\$ 0.000143	\$ 0.000311	\$ 0.000414	\$ 0.000513	\$ 0.000572	\$ 0.000603	\$ 0.000621	\$ 0.000637	\$ 0.000649	\$ 0.000661	\$ 0.000671
Performance Incentive												
at 85%	\$ 0.000046	\$ 0.000064	\$ 0.000088	\$ 0.000103	\$ 0.000117	\$ 0.000126	\$ 0.000130	\$ 0.000132	\$ 0.000134	\$ 0.000136	\$ 0.000137	\$ 0.000139
at 100%	\$ 0.000061	\$ 0.000086	\$ 0.000117	\$ 0.000137	\$ 0.000156	\$ 0.000167	\$ 0.000173	\$ 0.000176	\$ 0.000179	\$ 0.000181	\$ 0.000183	\$ 0.000185
at 115%	\$ 0.000076	\$ 0.000107	\$ 0.000146	\$ 0.000171	\$ 0.000195	\$ 0.000209	\$ 0.000216	\$ 0.000220	\$ 0.000224	\$ 0.000227	\$ 0.000229	\$ 0.000231
Lost Margin	\$ 0.000302	\$ 0.000739	\$ 0.001320	\$ 0.001924	\$ 0.002529	\$ 0.003127	\$ 0.003742	\$ 0.004355	\$ 0.004976	\$ 0.005595	\$ 0.006217	\$ 0.006836

**Cumulative Totals for Components For Each Scenario (\$/kWh)**

Only DSM Spending	\$ 0.000000	\$ 0.000143	\$ 0.000311	\$ 0.000414	\$ 0.000513	\$ 0.000572	\$ 0.000603	\$ 0.000621	\$ 0.000637	\$ 0.000649	\$ 0.000661	\$ 0.000671
DSM and Perf. Incentive												
at 85% Perf Incentive	\$ 0.000046	\$ 0.000208	\$ 0.000399	\$ 0.000517	\$ 0.000630	\$ 0.000698	\$ 0.000733	\$ 0.000753	\$ 0.000771	\$ 0.000785	\$ 0.000798	\$ 0.000810
at 100% Perf Incentive	\$ 0.000061	\$ 0.000229	\$ 0.000428	\$ 0.000551	\$ 0.000669	\$ 0.000739	\$ 0.000776	\$ 0.000798	\$ 0.000816	\$ 0.000830	\$ 0.000844	\$ 0.000856
at 115% Perf Incentive	\$ 0.000076	\$ 0.000251	\$ 0.000458	\$ 0.000585	\$ 0.000708	\$ 0.000781	\$ 0.000820	\$ 0.000842	\$ 0.000861	\$ 0.000876	\$ 0.000890	\$ 0.000902
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	\$ 0.000347	\$ 0.000946	\$ 0.001719	\$ 0.002440	\$ 0.003159	\$ 0.003825	\$ 0.004475	\$ 0.005108	\$ 0.005747	\$ 0.006380	\$ 0.007015	\$ 0.007646
at 100% Perf Incentive	\$ 0.000363	\$ 0.000968	\$ 0.001749	\$ 0.002475	\$ 0.003198	\$ 0.003867	\$ 0.004519	\$ 0.005153	\$ 0.005792	\$ 0.006426	\$ 0.007061	\$ 0.007692
at 115% Perf Incentive	\$ 0.000378	\$ 0.000989	\$ 0.001778	\$ 0.002509	\$ 0.003237	\$ 0.003909	\$ 0.004562	\$ 0.005197	\$ 0.005837	\$ 0.006471	\$ 0.007107	\$ 0.007738

**% Increase to Average Residential Customer Bill by Component**

DSM Portfolio Spending	0.0%	0.1%	0.3%	0.3%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Performance Incentive												
at 85%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
at 100%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
at 115%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Lost Margin	0.2%	0.6%	1.1%	1.6%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%

**% Increase to Average Residential Customer Bill - For Each Scenario**

Only DSM Spending	0.0%	0.1%	0.3%	0.3%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
DSM and Perf. Incentive												
at 85% Perf Incentive	0.0%	0.2%	0.3%	0.4%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%
at 100% Perf Incentive	0.0%	0.2%	0.3%	0.4%	0.5%	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%
at 115% Perf Incentive	0.1%	0.2%	0.4%	0.5%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	0.3%	0.8%	1.4%	2.0%	2.5%	3.1%	3.6%	4.1%	4.6%	5.1%	5.7%	6.2%
at 100% Perf Incentive	0.3%	0.8%	1.4%	2.0%	2.6%	3.1%	3.6%	4.2%	4.7%	5.2%	5.7%	6.2%
at 115% Perf Incentive	0.3%	0.8%	1.4%	2.0%	2.6%	3.2%	3.7%	4.2%	4.7%	5.2%	5.7%	6.2%

**UNS Electric**

**Case 2: DSM Savings Standard (Starting at 0.50% of Sales Increasing to 1.5%)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Components:</b>												
DSM Portfolio Spending	\$ 0.000000	\$ 0.000143	\$ 0.000311	\$ 0.000539	\$ 0.000767	\$ 0.000830	\$ 0.000863	\$ 0.000884	\$ 0.000903	\$ 0.000918	\$ 0.000932	\$ 0.000945
Performance Incentive	\$ 0.000046	\$ 0.000064	\$ 0.000088	\$ 0.000122	\$ 0.000155	\$ 0.000164	\$ 0.000169	\$ 0.000172	\$ 0.000174	\$ 0.000176	\$ 0.000178	\$ 0.000180
at 85%	\$ 0.000061	\$ 0.000086	\$ 0.000117	\$ 0.000162	\$ 0.000207	\$ 0.000219	\$ 0.000225	\$ 0.000229	\$ 0.000232	\$ 0.000235	\$ 0.000238	\$ 0.000240
at 100%	\$ 0.000076	\$ 0.000107	\$ 0.000146	\$ 0.000203	\$ 0.000259	\$ 0.000274	\$ 0.000282	\$ 0.000286	\$ 0.000290	\$ 0.000294	\$ 0.000297	\$ 0.000300
Lost Margin	\$ 0.000302	\$ 0.000739	\$ 0.001320	\$ 0.002079	\$ 0.002995	\$ 0.003903	\$ 0.004831	\$ 0.005756	\$ 0.006693	\$ 0.007627	\$ 0.008565	\$ 0.009500
<b>Cumulative Totals for Components</b>												
Only DSM Spending	\$ 0.000000	\$ 0.000143	\$ 0.000311	\$ 0.000539	\$ 0.000767	\$ 0.000830	\$ 0.000863	\$ 0.000884	\$ 0.000903	\$ 0.000918	\$ 0.000932	\$ 0.000945
DSM and Perf. Incentive	\$ 0.000046	\$ 0.000208	\$ 0.000399	\$ 0.000661	\$ 0.000923	\$ 0.000994	\$ 0.001032	\$ 0.001055	\$ 0.001077	\$ 0.001094	\$ 0.001111	\$ 0.001125
at 85% Perf Incentive	\$ 0.000061	\$ 0.000229	\$ 0.000428	\$ 0.000702	\$ 0.000974	\$ 0.001048	\$ 0.001089	\$ 0.001113	\$ 0.001135	\$ 0.001153	\$ 0.001170	\$ 0.001185
at 100% Perf Incentive	\$ 0.000076	\$ 0.000251	\$ 0.000458	\$ 0.000742	\$ 0.001026	\$ 0.001103	\$ 0.001145	\$ 0.001170	\$ 0.001193	\$ 0.001212	\$ 0.001229	\$ 0.001245
DSM, Perf Incentive, Lost Margin	\$ 0.000347	\$ 0.000946	\$ 0.001719	\$ 0.002740	\$ 0.003918	\$ 0.004897	\$ 0.005863	\$ 0.006812	\$ 0.007770	\$ 0.008722	\$ 0.009676	\$ 0.010625
at 85% Perf Incentive	\$ 0.000363	\$ 0.000968	\$ 0.001749	\$ 0.002780	\$ 0.003970	\$ 0.004951	\$ 0.005919	\$ 0.006869	\$ 0.007828	\$ 0.008780	\$ 0.009735	\$ 0.010685
at 100% Perf Incentive	\$ 0.000378	\$ 0.000989	\$ 0.001778	\$ 0.002821	\$ 0.004021	\$ 0.005006	\$ 0.005976	\$ 0.006926	\$ 0.007886	\$ 0.008839	\$ 0.009795	\$ 0.010745
<b>% Increase to Average Residential Customer by Component</b>												
DSM Portfolio Spending	0.0%	0.1%	0.3%	0.4%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%
Performance Incentive	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
at 85%	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
at 100%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
at 115%	0.2%	0.6%	1.1%	1.7%	2.4%	3.1%	3.9%	4.6%	5.4%	6.1%	6.9%	7.7%
Lost Margin	0.0%	0.1%	0.3%	0.4%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%
<b>% Increase to Average Residential Customer - Totals</b>												
Only DSM Spending	0.0%	0.1%	0.3%	0.4%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%
DSM and Perf. Incentive	0.0%	0.2%	0.3%	0.5%	0.7%	0.8%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%
at 85% Perf Incentive	0.0%	0.2%	0.3%	0.6%	0.8%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
at 100% Perf Incentive	0.1%	0.2%	0.4%	0.6%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%
at 115% Perf Incentive	0.3%	0.8%	1.4%	2.2%	3.2%	3.9%	4.7%	5.5%	6.3%	7.0%	7.8%	8.6%
DSM, Perf Incentive, Lost Margin	0.3%	0.8%	1.4%	2.2%	3.2%	4.0%	4.8%	5.5%	6.3%	7.1%	7.8%	8.6%
at 85% Perf Incentive	0.3%	0.8%	1.4%	2.3%	3.2%	4.0%	4.8%	5.6%	6.4%	7.1%	7.9%	8.7%
at 100% Perf Incentive	0.3%	0.8%	1.4%	2.3%	3.2%	4.0%	4.8%	5.6%	6.4%	7.1%	7.9%	8.7%
at 115% Perf Incentive	0.3%	0.8%	1.4%	2.3%	3.2%	4.0%	4.8%	5.6%	6.4%	7.1%	7.9%	8.7%

**UNS Electric**

**Case 3: DSM Savings Standard (Starting at 0.50% of Sales Increasing to 2.0%)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Components:</b>												
DSM Portfolio Spending	\$ 0.000000	\$ 0.000143	\$ 0.000311	\$ 0.000539	\$ 0.000767	\$ 0.000958	\$ 0.001124	\$ 0.001146	\$ 0.001168	\$ 0.001187	\$ 0.001204	\$ 0.001219
Performance Incentive												
at 85%	\$ 0.000046	\$ 0.000064	\$ 0.000088	\$ 0.000122	\$ 0.000155	\$ 0.000183	\$ 0.000208	\$ 0.000211	\$ 0.000214	\$ 0.000217	\$ 0.000219	\$ 0.000221
at 100%	\$ 0.000061	\$ 0.000086	\$ 0.000117	\$ 0.000162	\$ 0.000207	\$ 0.000245	\$ 0.000277	\$ 0.000281	\$ 0.000285	\$ 0.000289	\$ 0.000292	\$ 0.000294
at 115%	\$ 0.000076	\$ 0.000107	\$ 0.000146	\$ 0.000203	\$ 0.000259	\$ 0.000306	\$ 0.000347	\$ 0.000352	\$ 0.000357	\$ 0.000361	\$ 0.000365	\$ 0.000368
Lost Margin	\$ 0.000302	\$ 0.000739	\$ 0.001320	\$ 0.002079	\$ 0.002995	\$ 0.004061	\$ 0.005306	\$ 0.006550	\$ 0.007806	\$ 0.009060	\$ 0.010318	\$ 0.011574
<b>Cumulative Totals for Components</b>												
Only DSM Spending	\$ 0.000000	\$ 0.000143	\$ 0.000311	\$ 0.000539	\$ 0.000767	\$ 0.000958	\$ 0.001124	\$ 0.001146	\$ 0.001168	\$ 0.001187	\$ 0.001204	\$ 0.001219
DSM and Perf. Incentive												
at 85% Perf Incentive	\$ 0.000046	\$ 0.000208	\$ 0.000399	\$ 0.000661	\$ 0.000923	\$ 0.001142	\$ 0.001332	\$ 0.001358	\$ 0.001383	\$ 0.001403	\$ 0.001423	\$ 0.001440
at 100% Perf Incentive	\$ 0.000061	\$ 0.000229	\$ 0.000428	\$ 0.000702	\$ 0.000974	\$ 0.001203	\$ 0.001401	\$ 0.001428	\$ 0.001454	\$ 0.001475	\$ 0.001496	\$ 0.001514
at 115% Perf Incentive	\$ 0.000076	\$ 0.000251	\$ 0.000458	\$ 0.000742	\$ 0.001026	\$ 0.001264	\$ 0.001470	\$ 0.001498	\$ 0.001525	\$ 0.001547	\$ 0.001569	\$ 0.001587
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	\$ 0.000347	\$ 0.000946	\$ 0.001719	\$ 0.002740	\$ 0.003918	\$ 0.005202	\$ 0.006638	\$ 0.007907	\$ 0.009188	\$ 0.010463	\$ 0.011741	\$ 0.013014
at 100% Perf Incentive	\$ 0.000363	\$ 0.000968	\$ 0.001749	\$ 0.002780	\$ 0.003970	\$ 0.005264	\$ 0.006707	\$ 0.007978	\$ 0.009260	\$ 0.010535	\$ 0.011814	\$ 0.013088
at 115% Perf Incentive	\$ 0.000378	\$ 0.000989	\$ 0.001778	\$ 0.002821	\$ 0.004021	\$ 0.005325	\$ 0.006776	\$ 0.008048	\$ 0.009331	\$ 0.010608	\$ 0.011887	\$ 0.013161
<b>% Increase to Average Residential Customer by Component</b>												
DSM Portfolio Spending	0.0%	0.1%	0.3%	0.4%	0.6%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%
Performance Incentive												
at 85%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
at 100%	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
at 115%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Lost Margin	0.2%	0.6%	1.1%	1.7%	2.4%	3.3%	4.3%	5.3%	6.3%	7.3%	8.3%	9.3%
<b>% Increase to Average Residential Customer - Totals</b>												
Only DSM Spending	0.0%	0.1%	0.3%	0.4%	0.6%	0.8%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%
DSM and Perf. Incentive												
at 85% Perf Incentive	0.0%	0.2%	0.3%	0.5%	0.7%	0.9%	1.1%	1.1%	1.1%	1.1%	1.1%	1.2%
at 100% Perf Incentive	0.0%	0.2%	0.3%	0.6%	0.8%	1.0%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%
at 115% Perf Incentive	0.1%	0.2%	0.4%	0.6%	0.8%	1.0%	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	0.3%	0.8%	1.4%	2.2%	3.2%	4.2%	5.4%	6.4%	7.4%	8.4%	9.5%	10.5%
at 100% Perf Incentive	0.3%	0.8%	1.4%	2.2%	3.2%	4.2%	5.4%	6.4%	7.5%	8.5%	9.5%	10.5%
at 115% Perf Incentive	0.3%	0.8%	1.4%	2.3%	3.2%	4.3%	5.5%	6.5%	7.5%	8.5%	9.6%	10.6%

**UNS Gas**

**Case 1: DSM Savings Standard (Starting at 0.50% of Sales Increasing to 0.75%)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Components (in \$/kWh):</b>												
DSM Portfolio Spending	\$ 0.003215	\$ 0.006652	\$ 0.007324	\$ 0.008713	\$ 0.011451	\$ 0.013063	\$ 0.013854	\$ 0.014271	\$ 0.014539	\$ 0.014748	\$ 0.014934	\$ 0.015111
Performance Incentive												
at 85%	\$ 0.000985	\$ 0.001502	\$ 0.001599	\$ 0.001801	\$ 0.002205	\$ 0.002441	\$ 0.002553	\$ 0.002609	\$ 0.002643	\$ 0.002669	\$ 0.002691	\$ 0.002712
at 100%	\$ 0.001314	\$ 0.002002	\$ 0.002132	\$ 0.002401	\$ 0.002940	\$ 0.003254	\$ 0.003404	\$ 0.003479	\$ 0.003525	\$ 0.003558	\$ 0.003588	\$ 0.003616
at 115%	\$ 0.001642	\$ 0.002503	\$ 0.002665	\$ 0.003001	\$ 0.003675	\$ 0.004068	\$ 0.004255	\$ 0.004349	\$ 0.004406	\$ 0.004448	\$ 0.004485	\$ 0.004520
Lost Margin	\$ 0.001759	\$ 0.004419	\$ 0.007067	\$ 0.009675	\$ 0.012267	\$ 0.014844	\$ 0.017407	\$ 0.019956	\$ 0.022489	\$ 0.025008	\$ 0.027518	\$ 0.030024

**Cumulative Totals for Components For Each Scenario (\$/kWh)**

Only DSM Spending	\$ 0.003215	\$ 0.006652	\$ 0.007324	\$ 0.008713	\$ 0.011451	\$ 0.013063	\$ 0.013854	\$ 0.014271	\$ 0.014539	\$ 0.014748	\$ 0.014934	\$ 0.015111
DSM and Perf. Incentive												
at 85% Perf Incentive	\$ 0.004200	\$ 0.008154	\$ 0.008923	\$ 0.010514	\$ 0.013657	\$ 0.015504	\$ 0.016407	\$ 0.016881	\$ 0.017182	\$ 0.017417	\$ 0.017625	\$ 0.017822
at 100% Perf Incentive	\$ 0.004528	\$ 0.008654	\$ 0.009456	\$ 0.011114	\$ 0.014392	\$ 0.016318	\$ 0.017258	\$ 0.017750	\$ 0.018063	\$ 0.018306	\$ 0.018522	\$ 0.018726
at 115% Perf Incentive	\$ 0.004857	\$ 0.009155	\$ 0.009989	\$ 0.011714	\$ 0.015127	\$ 0.017131	\$ 0.018109	\$ 0.018620	\$ 0.018944	\$ 0.019196	\$ 0.019419	\$ 0.019630
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	\$ 0.005959	\$ 0.012573	\$ 0.015989	\$ 0.020189	\$ 0.025924	\$ 0.030348	\$ 0.033814	\$ 0.036836	\$ 0.039671	\$ 0.042425	\$ 0.045143	\$ 0.047847
at 100% Perf Incentive	\$ 0.006287	\$ 0.013074	\$ 0.016522	\$ 0.020789	\$ 0.026659	\$ 0.031162	\$ 0.034665	\$ 0.037706	\$ 0.040552	\$ 0.043314	\$ 0.046040	\$ 0.048751
at 115% Perf Incentive	\$ 0.006616	\$ 0.013574	\$ 0.017055	\$ 0.021389	\$ 0.027394	\$ 0.031976	\$ 0.035516	\$ 0.038576	\$ 0.041433	\$ 0.044204	\$ 0.046937	\$ 0.049655

**% Increase to Average Residential Customer Bill by Component**

DSM Portfolio Spending	0.2%	0.5%	0.5%	0.6%	0.8%	1.0%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%
Performance Incentive												
at 85%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
at 100%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
at 115%	0.1%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Lost Margin	0.1%	0.3%	0.5%	0.7%	0.9%	1.1%	1.3%	1.5%	1.7%	1.9%	2.0%	2.2%

**% Increase to Average Residential Customer Bill - For Each Scenario**

Only DSM Spending	0.2%	0.5%	0.5%	0.6%	0.8%	1.0%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%
DSM and Perf. Incentive												
at 85% Perf Incentive	0.3%	0.6%	0.7%	0.8%	1.0%	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%
at 100% Perf Incentive	0.3%	0.6%	0.7%	0.8%	1.1%	1.2%	1.3%	1.3%	1.3%	1.4%	1.4%	1.4%
at 115% Perf Incentive	0.4%	0.7%	0.7%	0.9%	1.1%	1.3%	1.3%	1.4%	1.4%	1.4%	1.4%	1.5%
DSM, Perf Incentive, Lost Margin												
at 85% Perf Incentive	0.4%	0.9%	1.2%	1.5%	1.9%	2.3%	2.5%	2.7%	2.9%	3.1%	3.3%	3.6%
at 100% Perf Incentive	0.5%	1.0%	1.2%	1.5%	2.0%	2.3%	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%
at 115% Perf Incentive	0.5%	1.0%	1.3%	1.6%	2.0%	2.4%	2.6%	2.9%	3.1%	3.3%	3.5%	3.7%

**UNS Gas**

**Case 2: DSM Savings Standard (Starting at 0.50% of Sales Increasing to 1%)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Components:</b>												
<b>DSM Portfolio Spending</b>	\$ 0.003215	\$ 0.006652	\$ 0.009989	\$ 0.012499	\$ 0.014118	\$ 0.015155	\$ 0.015707	\$ 0.016040	\$ 0.016283	\$ 0.016492	\$ 0.016686	\$ 0.016874
<b>Performance Incentive</b>												
at 85%	\$ 0.000985	\$ 0.001502	\$ 0.001998	\$ 0.002369	\$ 0.002605	\$ 0.002754	\$ 0.002831	\$ 0.002875	\$ 0.002905	\$ 0.002930	\$ 0.002954	\$ 0.002976
at 100%	\$ 0.001314	\$ 0.002002	\$ 0.002665	\$ 0.003158	\$ 0.003474	\$ 0.003673	\$ 0.003775	\$ 0.003853	\$ 0.003874	\$ 0.003907	\$ 0.003938	\$ 0.003968
at 115%	\$ 0.001642	\$ 0.002503	\$ 0.003331	\$ 0.003948	\$ 0.004342	\$ 0.004591	\$ 0.004718	\$ 0.004791	\$ 0.004842	\$ 0.004884	\$ 0.004923	\$ 0.004960
<b>Lost Margin</b>	\$ 0.001759	\$ 0.004419	\$ 0.007959	\$ 0.011456	\$ 0.014931	\$ 0.018385	\$ 0.021820	\$ 0.025237	\$ 0.028632	\$ 0.032008	\$ 0.035373	\$ 0.038731
<b>Cumulative Totals for Components</b>												
Only DSM Spending	\$ 0.003215	\$ 0.006652	\$ 0.009989	\$ 0.012499	\$ 0.014118	\$ 0.015155	\$ 0.015707	\$ 0.016040	\$ 0.016283	\$ 0.016492	\$ 0.016686	\$ 0.016874
DSM and Perf. Incentive	\$ 0.004200	\$ 0.008154	\$ 0.011987	\$ 0.014868	\$ 0.016723	\$ 0.017909	\$ 0.018538	\$ 0.018914	\$ 0.019189	\$ 0.019423	\$ 0.019640	\$ 0.019850
at 85% Perf Incentive	\$ 0.004528	\$ 0.008654	\$ 0.012653	\$ 0.015657	\$ 0.017592	\$ 0.018827	\$ 0.019482	\$ 0.019873	\$ 0.020157	\$ 0.020399	\$ 0.020625	\$ 0.020842
at 115% Perf Incentive	\$ 0.004857	\$ 0.009155	\$ 0.013319	\$ 0.016447	\$ 0.018460	\$ 0.019745	\$ 0.020426	\$ 0.020831	\$ 0.021125	\$ 0.021376	\$ 0.021609	\$ 0.021834
DSM, Perf Incentive, Lost Margin	\$ 0.005959	\$ 0.012573	\$ 0.019946	\$ 0.026324	\$ 0.031654	\$ 0.036294	\$ 0.040359	\$ 0.044151	\$ 0.047821	\$ 0.051431	\$ 0.055013	\$ 0.058581
at 85% Perf Incentive	\$ 0.006287	\$ 0.013074	\$ 0.020613	\$ 0.027113	\$ 0.032522	\$ 0.037212	\$ 0.041302	\$ 0.045109	\$ 0.048789	\$ 0.052408	\$ 0.055997	\$ 0.059573
at 115% Perf Incentive	\$ 0.006616	\$ 0.013574	\$ 0.021279	\$ 0.027903	\$ 0.033391	\$ 0.038131	\$ 0.042246	\$ 0.046067	\$ 0.049758	\$ 0.053385	\$ 0.056982	\$ 0.060565
<b>% Increase to Average Residential Customer by Component</b>												
DSM Portfolio Spending	0.2%	0.5%	0.7%	0.9%	1.0%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%
Performance Incentive												
at 85%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
at 100%	0.1%	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
at 115%	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Lost Margin	0.1%	0.3%	0.6%	0.8%	1.1%	1.4%	1.6%	1.9%	2.1%	2.4%	2.6%	2.9%
<b>% Increase to Average Residential Customer - Totals</b>												
Only DSM Spending	0.2%	0.5%	0.7%	0.9%	1.0%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%
DSM and Perf. Incentive	0.3%	0.6%	0.9%	1.1%	1.2%	1.3%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%
at 85% Perf Incentive	0.3%	0.6%	0.9%	1.2%	1.3%	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%
at 100% Perf Incentive	0.4%	0.7%	1.0%	1.2%	1.4%	1.5%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%
at 115% Perf Incentive	0.4%	0.7%	1.0%	1.2%	1.4%	1.5%	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%
DSM, Perf Incentive, Lost Margin	0.4%	0.9%	1.5%	2.0%	2.3%	2.7%	3.0%	3.3%	3.5%	3.8%	4.1%	4.3%
at 85% Perf Incentive	0.5%	1.0%	1.5%	2.0%	2.4%	2.8%	3.1%	3.3%	3.6%	3.9%	4.2%	4.4%
at 100% Perf Incentive	0.5%	1.0%	1.6%	2.1%	2.5%	2.8%	3.1%	3.4%	3.7%	4.0%	4.2%	4.5%
at 115% Perf Incentive	0.5%	1.0%	1.6%	2.1%	2.5%	2.8%	3.1%	3.4%	3.7%	4.0%	4.2%	4.5%

**UNS Gas**

**Case 3: DSM Savings Standard (Starting at 0.30% of Sales Increasing to 1.5%)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Components:</b>												
DSM Portfolio Spending	\$ 0.003215	\$ 0.006652	\$ 0.009989	\$ 0.011489	\$ 0.012859	\$ 0.015402	\$ 0.017212	\$ 0.018281	\$ 0.018858	\$ 0.019211	\$ 0.019472	\$ 0.019698
Performance Incentive	\$ 0.000985	\$ 0.001502	\$ 0.001998	\$ 0.002217	\$ 0.002416	\$ 0.002791	\$ 0.003057	\$ 0.003211	\$ 0.003291	\$ 0.003338	\$ 0.003372	\$ 0.003400
at 85%	\$ 0.001314	\$ 0.002002	\$ 0.002865	\$ 0.002956	\$ 0.003222	\$ 0.003722	\$ 0.004076	\$ 0.004281	\$ 0.004388	\$ 0.004451	\$ 0.004495	\$ 0.004533
at 115%	\$ 0.001642	\$ 0.002503	\$ 0.003331	\$ 0.003695	\$ 0.004027	\$ 0.004652	\$ 0.005095	\$ 0.005351	\$ 0.005486	\$ 0.005564	\$ 0.005619	\$ 0.005666
Lost Margin	\$ 0.001759	\$ 0.004419	\$ 0.007959	\$ 0.012355	\$ 0.017629	\$ 0.022873	\$ 0.028087	\$ 0.033272	\$ 0.038425	\$ 0.043548	\$ 0.048652	\$ 0.053744
<b>Cumulative Totals for Components</b>												
Only DSM Spending	\$ 0.003215	\$ 0.006652	\$ 0.009989	\$ 0.011489	\$ 0.012859	\$ 0.015402	\$ 0.017212	\$ 0.018281	\$ 0.018858	\$ 0.019211	\$ 0.019472	\$ 0.019698
DSM and Perf. Incentive	\$ 0.004200	\$ 0.008154	\$ 0.011987	\$ 0.013707	\$ 0.015275	\$ 0.018194	\$ 0.020269	\$ 0.021492	\$ 0.022149	\$ 0.022549	\$ 0.022844	\$ 0.023098
at 85% Perf Incentive	\$ 0.004528	\$ 0.008654	\$ 0.012653	\$ 0.014446	\$ 0.016081	\$ 0.019124	\$ 0.021287	\$ 0.022562	\$ 0.023246	\$ 0.023661	\$ 0.023968	\$ 0.024232
at 115% Perf Incentive	\$ 0.004857	\$ 0.009155	\$ 0.013319	\$ 0.015185	\$ 0.016886	\$ 0.020055	\$ 0.022306	\$ 0.023632	\$ 0.024343	\$ 0.024774	\$ 0.025092	\$ 0.025365
DSM, Perf Incentive, Lost Margin	\$ 0.005959	\$ 0.012573	\$ 0.019946	\$ 0.026062	\$ 0.032905	\$ 0.041067	\$ 0.048356	\$ 0.054763	\$ 0.060574	\$ 0.066097	\$ 0.071496	\$ 0.076842
at 85% Perf Incentive	\$ 0.006287	\$ 0.013074	\$ 0.020613	\$ 0.026801	\$ 0.033710	\$ 0.041997	\$ 0.049375	\$ 0.055834	\$ 0.061671	\$ 0.067210	\$ 0.072620	\$ 0.077976
at 115% Perf Incentive	\$ 0.006616	\$ 0.013574	\$ 0.021279	\$ 0.027540	\$ 0.034516	\$ 0.042928	\$ 0.050394	\$ 0.056904	\$ 0.062768	\$ 0.068322	\$ 0.073744	\$ 0.079109
<b>% Increase to Average Residential Customer by Component</b>												
DSM Portfolio Spending	0.2%	0.5%	0.7%	0.9%	1.0%	1.1%	1.3%	1.4%	1.4%	1.4%	1.4%	1.5%
Performance Incentive	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%
at 85%	0.1%	0.1%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
at 100%	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
at 115%	0.1%	0.3%	0.6%	0.9%	1.3%	1.7%	2.1%	2.5%	2.9%	3.2%	3.6%	4.0%
Lost Margin	0.2%	0.5%	0.7%	0.9%	1.0%	1.1%	1.3%	1.4%	1.4%	1.4%	1.4%	1.5%
<b>% Increase to Average Residential Customer - Totals</b>												
Only DSM Spending	0.2%	0.5%	0.7%	0.9%	1.0%	1.1%	1.3%	1.4%	1.4%	1.4%	1.4%	1.5%
DSM and Perf. Incentive	0.3%	0.6%	0.9%	1.0%	1.1%	1.3%	1.5%	1.6%	1.6%	1.7%	1.7%	1.7%
at 85% Perf Incentive	0.3%	0.6%	0.9%	1.1%	1.2%	1.4%	1.6%	1.7%	1.7%	1.8%	1.8%	1.8%
at 100% Perf Incentive	0.4%	0.7%	1.0%	1.1%	1.3%	1.5%	1.7%	1.8%	1.8%	1.8%	1.9%	1.9%
at 115% Perf Incentive	0.4%	0.9%	1.5%	1.9%	2.4%	3.0%	3.6%	4.1%	4.5%	4.9%	5.3%	5.7%
DSM, Perf Incentive, Lost Margin	0.5%	1.0%	1.5%	2.0%	2.5%	3.1%	3.7%	4.1%	4.6%	5.0%	5.4%	5.8%
at 85% Perf Incentive	0.5%	1.0%	1.6%	2.0%	2.6%	3.2%	3.7%	4.2%	4.7%	5.1%	5.5%	5.9%
at 100% Perf Incentive	0.5%	1.0%	1.6%	2.0%	2.6%	3.2%	3.7%	4.2%	4.7%	5.1%	5.5%	5.9%
at 115% Perf Incentive	0.5%	1.0%	1.6%	2.0%	2.6%	3.2%	3.7%	4.2%	4.7%	5.1%	5.5%	5.9%

# EXHIBIT 2

**Benchmarked Organizations' Normalized 2006 DSM Spending and Energy Savings**

	<b>DSM Spending as % of Revenues</b>	<b>Energy Savings as % of Sales</b>		<b>DSM Spending as % of Revenues</b>	<b>Energy Savings as % of Sales</b>
Indianapolis P&L 05	0.1%	0.02%	Interstate P&L (IA)	1.8%	0.8%
WI Focus on Energy	0.5%	0.3%	BC Hydro 05	1.9%	0.9%
NYSERDA	0.6%	0.2%	MidAmerican (IA)	2.0%	0.9%
Efficiency ME	0.7%	0.3%	NSTAR 05	2.1%	0.9%
Duke Energy Indiana 05	0.7%	0.1%	SCE 05	2.3%	1.6%
MN Power	0.8%	0.5%	PGE 05	2.3%	1.4%
NJ CEP 05	1.1%	0.5%	Efficiency VT	2.4%	1.0%
Otter Tail	1.4%	0.7%	Interstate P&L (MN)	2.8%	1.6%
CEEF 05	1.7%	1.0%	National Grid (MA)	3.4%	0.9%
Xcel Energy (MN)	1.8%	0.8%	SDGE 05	3.6%	2.1%
			<b>Median</b>	<b>1.8%</b>	<b>0.8%</b>

# **EXHIBIT 3**

**TEP DSM Portfolio Standard Cost Summary – 12 year averages**

	<b>Standard at 1%</b>	<b>Standard at 1.5%</b>	<b>Standard at 2%</b>
Portfolio Spending	\$ 24,634,098	\$ 30,844,135	\$ 35,685,707
Performance Incentive @ 85%	\$ 3,695,115	\$ 4,626,620	\$ 5,352,856
Performance Incentive @ 100%	\$ 4,926,820	\$ 6,168,827	\$ 7,137,141
Performance Incentive @ 115%	\$ 6,158,524	\$ 7,711,034	\$ 8,921,427
Lost Margin Recovery	\$ 35,134,075	\$ 45,705,405	\$ 52,220,569