

ORIGINAL

OPEN MEETING



0000097613

MEMORANDUM

RECEIVED

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 10, 2009

RE: TUCSON ELECTRIC POWER COMPANY-APPLICATION FOR APPROVAL OF ADDITIONAL FUNDING FOR ITS COMPACT FLUORESCENT LAMP BUYDOWN PROGRAM (DOCKET NO. E-01933A-07-0401)

2009 JUN 10 P 3:17

AZ CORP COMMISSION
DOCKET CONTROL

BACKGROUND

On April 9, 2009, Tucson Electric Power Company ("TEP" or "Company") filed an application for approval of additional funding for its Compact Fluorescent Lamp Buydown Program.

On July 2, 2007, TEP filed its demand-side management ("DSM") Portfolio of programs for the years 2008 through 2012 ("Filing"). Ten programs were included in the Filing, including the Energy Star® Compact Fluorescent Lamp ("CFL") Buy-Down Program ("Program"). On June 13, 2008, the Commission, in Decision No. 70383, granted approval of TEP's CFL Program. In the current application, TEP is requesting approval to increase the funding amount for the Program by \$790,724.

On March 24, 2009 (E-01933A-07-0402; E-01933A-05-0560), TEP filed an application for approval to revise its DSM surcharge beginning June 1, 2009 in accordance with Decision No. 70628, to recover the costs of its DSM programs through its DSM Surcharge. TEP's March 24, 2009, filing was approved by the Commission on May 27, 2009. The increased Surcharge was based on projected spending that included the proposed additional CFL funding.

TEP's CFL Program promotes the installation of energy efficient Energy Star® approved lighting products by residential and small commercial customers in TEP's service area. Program participation has been greater than anticipated. According to TEP, during the first six months of the CFL Program's implementation (July through December 2008), customers purchased 395,491 CFL lamps which is 129.5 percent of the projected 305,471 CFL lamp sales for the entire year of 2008.

PROGRAM SUMMARY

TEP along with Ecos Consulting, Inc. ("ECOS"), the implementation contractor selected by TEP, negotiate discount pricing from CFL manufacturers and retailers through incentives paid

Arizona Corporation Commission

DOCKETED

JUN 10 2009

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to the manufacturers.¹ Customers are referred to participating retailers (i.e. department stores, home improvement stores, lighting equipment stores and supermarkets) to purchase qualifying products that carry the Energy Star® label. Qualifying programs include CFLs in a variety of sizes and configurations. TEP's CFL program allows discount pricing to be passed on to the customers through negotiated agreements with lighting manufacturers and retailers. In addition, the Program provides customer education and sales training for participating retailers, including in-store point-of-sale displays.

The target market for the Program is TEP's residential and small commercial customers although the Program is available to all TEP customers. Compact fluorescent lamps are substantially more expensive than traditional incandescent lamps. However, TEP's CFL Program allows participating customers to see savings from reduced power and energy use.

TEP indicated that in order to accommodate the overwhelming success of the CFL Program, the company considered several options for the Program which included 1) discontinue the Program promotion in October 2008; 2) reduce the variety of qualifying products and the number of participating retailers; or 3) reduce the manufacturer's buy-down to slow product sales. TEP concluded that it would reduce the number of optional CFL lamp styles and the number of participating retailers through the end of 2008. In addition, TEP states that ECOS reduced the manufacturer's buy-down on some of the more popular products in order to slow customer participation.

BUDGET AND ENERGY SAVINGS

Table 1 below shows TEP's original approved 2008-2012 budget for its CFL program.

Table 1 2008-2012 Original program budget approved in Decision No. 70383

Year	2008	2009	2010	2011	2012
Total Budget	\$700,000	\$721,000	\$742,630	\$764,909	\$787,856
Incentives	\$473,480	\$487,684	\$502,315	\$517,384	\$532,906
Administrative/Implementation Costs	\$226,520	\$233,316	\$240,315	\$247,525	\$254,950
Incentives as % of Budget	67.6%	67.6%	67.6%	67.6%	67.6%

Table 2 below represents TEP's proposed increased budget 2009-2012 for its CFL program.

¹ It has been the experience of DSM programs in other areas that benefits are greater when the incentives are paid to the manufacturer, who then provides greater savings to the retailer, who then in turn provides even greater savings to the customer. TEP's CFL program structure is the same as used by Arizona Public Service for its CFL program.

Table 2 2009-2012 Proposed increased program budget

Year	Actual 6 mos. 2008	2009	2010	2011	2012
Total Budget	\$494,338	\$1,490,724	\$1,535,445	\$1,581,509	\$1,628,954
Incentives	\$374,906	\$1,251,537	\$1,289,083	\$1,327,756	\$1,367,589
Administrative/Implementation Costs	\$119,432	\$239,187	\$246,362	\$253,753	\$261,366
Incentives as % of Budget	75.8%	84.0%	84.0%	84.0%	84.0%

Table 3 below compares the actual budget allocation for the 6 months of implementation in 2008 and the proposed budget allocation for 2009.

Budget Allocation	Actual 2008	2009
Managerial & Clerical	\$3,955	\$5,963
Travel & Direct Expenses	\$791	\$1,193
Overhead	\$5,141	\$7,752
Total Administrative Cost	\$9,887	\$14,908
Internal Marketing Expense	\$544	\$5,963
Subcontracted Marketing Expense	\$1,928	\$23,852
Total Marketing Cost	\$2,472	\$29,815
Incentives to Upstream Participants	\$374,906	\$1,251,537
Consumer education-Labor	\$14,237	\$43,156
Implementation Contractor Direct Expense	\$80,676	\$129,469
Travel & Training	\$4,746	\$14,385
Total Direct Implementation Cost	\$474,565	\$1,438,547
Evaluation, Measurement, & Verification ("EM&V")	\$4,153	\$4,175
EM&V Overhead	\$3,262	\$3,279
Total EM&V Cost	\$7,415	\$7,454
Total Program Budget	\$494,339	\$1,490,724

TEP continues to anticipate a 3 percent increase in the Program per year. Analyses show that the Program would provide demand savings of 0.0051 kW and energy savings of 56 kWh annually, on average, per lamp.

Table 4 and Table 5 below represent the Original and New Sales, Demand and Energy Savings Projections for TEP's CFL Program.

Table 4 2008-2012 Original Sales, Demand, and Energy Savings Projection approved in Decision No. 70383

Year	2008	2009	2010	2011	2012
Projected Lamp Sales	305,471	314,635	324,074	333,796	343,810
Peak Demand Savings (kW)	1,147	1,181	1,217	1,253	1,291
Energy Savings (kWh)	9,796,898	10,090,805	10,393,530	10,705,335	11,026,495

Table 5 New Sales, Demand, and Energy Savings Projection

Year	Actual 6 mos. 2008	2009	2010	2011	2012
Projected Lamp Sales	395,491	1,073,919	1,106,136	1,139,320	1,173,500
Peak Demand Savings (kW)	2,018	5,480	5,645	5,814	5,988
Energy Savings (kWh)	22,239,790	60,390,057	62,201,758	64,067,811	65,989,845

BENEFIT/COST ANALYSIS

The Commission's 1991 Resource Planning Decision established the Societal Test as the methodology to be used for determining the cost-effectiveness of a DSM program. Under the Societal Test, in order to be cost-effective, the ratio of benefits to costs must be greater than one. That is, the incremental benefits to society of a program must exceed the incremental costs of having the program in place. The societal costs for a DSM program include the cost of the measure and the cost of implementing the program, excluding rebates. The societal benefits of a DSM program include the avoided demand and energy costs.

Staff's benefit/cost analysis has concluded that TEP's CFL Program is cost-effective, with a benefit/cost ratio of 4.3. In addition, the Program would result in approximately \$11.9 million in net benefits to society over the lifetime of the measure.

Table 6 below represents a comparison between TEP's Original and New projected environmental benefits from the CFL Program.

Savings	Original	New	
Water	26,006,532	137,444,631	Gallons
SO _x	124,311	656,985	lbs
NO _x	206,492	1,091,310	lbs
CO ₂	108,603,278	573,968,778	lbs

RECOMMENDATIONS

Based on Staff's review and analysis of the benefits and costs of TEP's application, Staff recommends that TEP's proposed budget increase for its Compact Fluorescent Lamp Buy-Down Program be approved.

for 
 Ernest G. Johnson
 Director
 Utilities Division

EGJ:CLA:lhv\JFW

ORIGINATOR: Candrea Allen

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BEFORE THE ARIZONA CORPORATION COMMISSION

- KRISTIN K. MAYES
Chairman
- GARY PIERCE
Commissioner
- PAUL NEWMAN
Commissioner
- SANDRA D. KENNEDY
Commissioner
- BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION
 OF TUCSON ELECTRIC POWER
 COMPANY FOR APPROVAL OF
 ADDITIONAL FUNDING FOR ITS
 COMPACT FLUORESCENT LAMP
 BUYDOWN PROGRAM

DOCKET NOS. E-01933A-07-0401
 DECISION NO. _____
ORDER

Open Meeting
 June 23 and 24, 2009
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is certified to provide electric service as a public service corporation in the State of Arizona.

BACKGROUND

2. On April 9, 2009, TEP filed an application for approval of additional funding for its Compact Fluorescent Lamp Buydown Program.

3. On July 2, 2007, TEP filed its demand-side management ("DSM") Portfolio of programs for the years 2008 through 2012 ("Filing"). Ten programs were included in the Filing, including the Energy Star® Compact Fluorescent Lamp ("CFL") Buy-Down Program ("Program"). On June 13, 2008, the Commission, in Decision No. 70383, granted approval of TEP's CFL Program. In the current application, TEP is requesting approval to increase the funding amount for the Program by \$790,724.

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4 March 24, 2009, filing was approved by the Commission on May 27, 2009. The increased
5 Surcharge was based on projected spending that included the proposed additional CFL funding.

6 5. TEP's CFL Program promotes the installation of energy efficient Energy Star®
7 approved lighting products by residential and small commercial customers in TEP's service area.
8 Program participation has been greater than anticipated. According to TEP, during the first six
9 months of the CFL Program's implementation (July through December 2008), customers
10 purchased 395,491 CFL lamps which is 129.5 percent of the projected 305,471 CFL lamp sales for
11 the entire year of 2008.

12 **PROGRAM SUMMARY**

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14 selected by TEP, negotiates discount pricing from CFL manufacturers and retailers through
15 incentives paid to the manufacturers.¹ Customers are referred to participating retailers (i.e.
16 department stores, home improvement stores, lighting equipment stores and supermarkets) to
17 purchase qualifying products that carry the Energy Star® label. Qualifying programs include
18 CFLs in a variety of sizes and configurations. TEP's CFL program allows discount pricing to be
19 passed on to the customers through negotiated agreements with lighting manufacturers and
20 retailers. In addition, the Program provides customer education and sales training for participating
21 retailers, including in-store point-of-sale displays.

22 7. The target market for the Program is TEP's residential and small commercial
23 customers although the Program is available to all TEP customers. Compact fluorescent lamps are
24 substantially more expensive than traditional incandescent lamps. However, TEP's CFL Program
25 allows participating customers to see savings from reduced power and energy use.

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1 one. That is, the incremental benefits to society of a program must exceed the incremental costs of
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CO ₂	108,603,278	573,968,778	lbs

RECOMMENDATIONS

15 17. Based on Staff's review and analysis of the benefits and costs of TEP's application,
 16 Staff has recommended that TEP's proposed budget increase for its Compact Fluorescent Lamp
 17 Buy-Down Program be approved.

CONCLUSIONS OF LAW

19 1. TEP is an Arizona public service corporation within the meaning of Article XV,
 20 Section 2, of the Arizona Constitution.

21 2. The Commission has jurisdiction over TEP and over the subject matter of the
 22 Application.

23 3. The Commission, having reviewed the application and Staff's Memorandum dated
 24 June 10, 2009, concludes that it is in the public interest to approve the TEP request for additional
 25 funding for its Compact Fluorescent Lamp Buydown Program.

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ORDER

IT IS THEREFORE ORDERED that Tucson's Electric Power Company's request for additional funding for its Compact Fluorescent Lamp Buydown Program be and hereby is approved, as discussed herein.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, Michael P. Kearns, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2009.

MICHAEL P. KEARNS
INTERIM EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EGJ:CLA:lm\JMA

1 SERVICE LIST FOR: Tucson Electric Power Company
2 DOCKET NOS. E-01933A-07-0401

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4 Jason Gellman
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10 Mr. Ernest G. Johnson
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14 Ms. Janice M. Alward
15 Chief Counsel, Legal Division
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