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APS

Leland R. Snook
Director
State Regulation & Pricing

Tel. 602-250-3730
Fax 602-250-3003
e-mail Leland.Snook@aps.com

Mail Station 9708
PO Box 53999
Phoenix, Arizona 85072-3999

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Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

RE: ENERGY EFFICIENCY TECHNICAL WORKING GROUPS
DOCKET NOS. E-00000J-08-0314 and G-00000C-08-0314

Attached please find Arizona Public Service Company's comments in response to key provisions presented by other parties at the May 20, 2009 Energy Efficiency Technical Working Group meeting.

If you should have any questions, please call Mr. Jeff Johnson at 602-250-2661.

Sincerely,

Leland R. Snook

LRS/dst

Attachments

Cc: Brian Bozzo
Ernest Johnson
Terri Ford

Arizona Corporation Commission
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ARIZONA PUBLIC SERVICE COMPANY'S
Recommended Key Provisions for Energy Efficiency Rules
Technical Working Group Comments
May 28, 2009
E-00000J-08-0314 & G-00000C-08-0314

These comments are provided by Arizona Public Service Company ("APS") in response to the key provisions presented by other parties at the May 20, 2009, Technical Working Group meeting.

1. ALIGNING CUSTOMER AND UTILITY INTERESTS

- Although APS supports addressing the alignment of customer and utility interests by eliminating unrecovered fixed costs in the Energy Efficiency Rules ("Rules") as proposed by Tucson Electric Power, APS also recognizes that the resolution of this issue may be challenging within the time frame desired by the Commission for this rule making. Therefore, APS recommends that the Rules include, at a minimum, the following language, which is similar to language included in the proposed New Mexico Energy Efficiency Rule:

  > The Commission will develop rate design and ratemaking methods that eliminate regulatory disincentives or barriers to public utilities to achieve energy efficiency savings. The Commission will issue a final order removing regulatory disincentives or barriers to utilities to achieve energy efficiency savings by adopting appropriate rate design or ratemaking methods, by no later than the utility's next rate case subsequent to the approval of the Rules.

- To help alleviate a portion of the rate making disincentives before they are addressed as described above, APS recommends that an initial recovery mechanism be implemented for each year based upon the energy savings achieved by the utility multiplied by a per kWh incentive. This mechanism will equal the lifetime energy savings from measures installed during that year times $0.0025 per kWh. The equivalent energy savings from demand response programs would not be subject to this mechanism at this time.

2. ENERGY EFFICIENCY STANDARD

- APS believes that the Rules should adopt the following key points concerning the Energy Efficiency Standard:

  The Energy Efficiency Standard is a reduction of retail energy sales by 18% by the year 2020 through a combination of utility programs and energy efficiency building codes and appliance standards.

The Affected Utility should reduce Retail Energy Sales by fifteen percent (15%) by the year 2020.

Sales reductions from DSM programs beginning in January 2005 will be counted towards the standard.

Demand response may comprise up to 3% (3 percentage points) of the 15% utility program standard. For purposes of compliance with the standard, the peak load reduction capability from demand response will be converted to an annual energy equivalent, based on an assumed 50% annual load factor.

The savings from Demand Side Management measures that are installed during the years applicable to the standard will be presumed to persist through the entire term of the standard. Measures that expire before 2020 will be assumed to be replaced at similar or better efficiencies.

- APS reaffirms its position and agrees with Tucson Electric and RUCO that demand response should count towards the standard to recognize the importance of peak reductions and the resulting cost savings, such as the reduction of high energy costs during peak periods and the deferral of peaking generation facilities.

- APS supports providing MW reductions as part of the reporting requirements. However, APS disagrees with SWEEP that the 3% maximum demand response should be added to 15% standard from utility programs or that a separate standard should be established for demand response or capacity targets in general. As discussed above, APS believes that the 15% standard from utility programs is aggressive and may not be cost effective given the uncertainty of program costs. Therefore, and although demand response is another available tool to cost effectively achieve the 15% standard, it is premature to establish a specific percentage demand response goal.

- APS agrees with Tucson Electric that the 15% standard from utility programs is very aggressive as compared with other states and as supported by APS's 2007 market potential study.

- Program cost is a significant uncertainty and APS's resource plan analysis indicates that a 15% reduction from utility programs is beyond the level that APS believes is economic based upon current available energy efficiency technologies and compared to current costs of conventional generation.

- APS agrees with RUCO that it is important to set the standard at an economically achievable level. However, APS believes that by including demand response in the standard and considering the potential for technological advances, as well as the potential impact of carbon costs on conventional generation, the proposed standard is appropriate.

- APS agrees with the Co-ops' statement that energy efficiency programs require customer participation; thus, implementation is not entirely in the utilities' control. Therefore, APS recommends that the Commission recognize the need for flexibility in reviewing the annual implementation plans.

- APS agrees with SWEEP that energy savings can be expressed as a percent of both retail energy sales and total energy resources for reporting purposes, while compliance toward the standard should be based on energy savings as a percent of retail sales.

- Energy savings from efficiency improvements to the delivery system, such as installing higher efficiency distribution transformers and more efficient conductors, would also count toward meeting the Energy Efficiency Standard from utility programs.

3. PERFORMANCE INCENTIVE

- APS reaffirms its position that the annual performance incentive should be tiered as a percent of net benefits and capped at a tiered percent of program costs, as previously proposed by APS in this docket.

- The performance incentive should be based on the achieved annual energy reduction relative to an annual target, which is established in the Implementation Plan. While the equivalent energy from demand response programs should be counted towards the annual target, the net benefits from demand response should not be included in the performance incentive.

- The performance incentive should be recoverable through the adjustor mechanism.

- While APS agrees with SWEEP's proposal of a cents-per-unit savings mechanism, APS does not support a threshold energy savings target to trigger the mechanism. APS believes that the purpose of the mechanism is to help address the utility's rate making disincentive which is not tied to a specific performance threshold.

- APS does not agree with SWEEP's proposal for a performance incentive based on meeting key policy objectives, such as the number of low income customers participating in energy efficiency programs, because it could result in program emphasis that produces less than optimal energy savings. Furthermore, such policy objectives can be addressed in the utility's annual Implementation Plan.

4. REPORTING

- APS supports an annual reporting requirement that includes results from the prior year and plans for the following year by filing an Implementation Plan each June 1st. This annual filing should replace the current semi-annual results filings.

- APS also supports quarterly updates that would include annual energy savings and spending by program during that quarter.

5. ENVIRONMENTAL EXTERNALITIES

- APS agrees that it is important to recognize the environmental benefits of energy efficiency. Therefore, it is important to identify the potential environmental benefits and quantify the cost impacts when those costs can be clearly identified. If the costs cannot be clearly identified, APS recommends that the environmental benefits be considered in a qualitative manner. Furthermore, APS believes that attempting to quantify the impacts of many externalities, where market values do not exist, is a difficult task that could result in a lengthy and contentious process that could be difficult to resolve in the time frame contemplated by the Commission for adopting these Rules.

- APS believes that the process will require significant stakeholder input as these decisions will have a broad impact on resource decision making and, furthermore, the Rules should maintain consistency with all resource types.