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UniSource Energy

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Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

RE: Energy Efficiency Workshop Docket Nos. E-00000J-08-0314 & G-00000C-08-0314

Dear Parties to the Docket:

Tucson Electric Power Co., UNS Electric, Inc. and UNS Gas, Inc. (collectively "the Companies") support the Commission's policy goal to enhance energy efficiency. At the May 20, 2009 Energy Efficiency workshop Staff requested interested parties to provide written comments on the various topics that were discussed. The following comments represent the Companies' initial positions and recommendations with regard to the various topics.

Energy Efficiency Standard

Percentage: The Companies have proposed percentages that are very aggressive and may be difficult to reach in even the best circumstances. In fact, the percentages for the electric utilities are higher than other regional Energy Efficiency ("EE") standards (see Colorado, New Mexico). With this in mind, the Companies believe the following recommendations are reasonable and necessary to give them the best opportunity to meet the percentages. The percentage of Demand-side Management ("DSM") savings should be based upon a denominator of retail sales to align this policy with the Renewable Energy Standard and Tariff ("REST") targets. Program savings created through utility DSM programs should persist even after measure life.

The percentage targets for Gas Utilities should be less than for Electric Utilities, due to the lower number of end use gas-fired appliances and cost-effective measures. The Companies are proposing that the EE Standard for Gas Utilities be half the Standard for Electric Utilities.

Since this is a new process and our customers will ultimately determine the penetration of EE/DSM programs, after a few years of experience, the standard should be reviewed and adjusted as necessary.

Cost Recovery: Most, if not all, parties agree with the Companies' position that the cost of implementing the EE/DSM programs and associated incentives can be recovered through a DSM Adjustor as an expense, capitalized/amortized asset, or a combination thereof.

Cost/Benefit: All parties agree that EE/DSM programs should be cost effective. While parties have differing views of exactly how to determine cost effectiveness, the Companies believe this issue can be vetted on a case by case basis when Utilities file their annual plans or address it further in the IRP docket.

Fixed Cost Recovery Shortfall: This is a critical topic with widely disparate positions between parties. This is the single issue that keeps parties from being completely aligned in their desire for increased energy efficiency penetration. The Companies have offered a middle ground solution that is a simple and effective approach to address this issue. The Companies proposal recovers the Fixed Cost Shortfall due only to EE/DSM measures, and only between rate cases. Each rate case would reset both the base cost recovery rate and the previous years' volumes. Without such a mechanism, a utility does not have a reasonable opportunity to recover its costs of providing service, including a reasonable return on its investments, between rate cases. Without adoption of the Companies' proposal, or something similarly compensatory, utilities would need to file frequent rate cases. In addition, the Companies believe such a mechanism greatly mitigates, if not eliminates completely, legal challenges to the rule based on requiring action by utilities without requisite cost recovery.
Whatever it is called and however it is built to work a rule requiring a Utility (with its fixed cost presently being recovered through volumetric rate structures) to decrease sales without a corresponding mechanism in place to allow a reasonable opportunity to recover its prudently incurred fixed cost will result in unjust and unreasonable rates. The Companies are supportive of the societal goals being sought by these new rules, but there needs to be mechanisms put in place to give a reasonable opportunity for Utility's to recover these cost outside of filing a rate case each and every year.

Incentive Mechanisms: The Companies have proposed an incentive based on a percentage of net benefits. Other parties have proposed variations of incentives with tiers and caps. The Companies are open to discussing various incentive designs.

Enhance Performance Incentive: APS has proposed an Enhanced Performance Incentive as a component to help mitigate the Fixed Cost Recovery Shortfall. This is an inferior alternative to UniSource Energy's recommended method to recover the Fixed Cost Recovery Shortfall. UniSource Energy has not completed its evaluation of the appropriate incentive rate.

Addressing Ratemaking Disincentives: APS has proposed that the rule establish a requirement that the Commission address ratemaking and regulatory disincentives and barriers. Southwest Gas has proposed complete decoupling in separate proceedings. The Companies believe its proposal for recovering the Fixed Cost Recovery Shortfall addresses these disincentives in a clear, concise, complete and simple manner. If the Companies' proposal were adopted, all parties would know the impacts of the rule before it is approved and would not be subject to some future, undefined, process.

Direct Load Control Credit: Direct Load Control ("DLC") programs provide a contribution to an overall energy efficiency strategy by providing a dispatchable and reliable alternative energy source. Savings from these programs should be included as part of meeting an EE Standard. DLC load reduction capability can be converted to an annual energy equivalent based on an assumed 50% annual load factor. There should be no limit to the percentage of overall savings achieved by DLC programs.

The Companies appreciate the opportunity to provide these comments and look forward to continuing our participation in the Energy Efficiency workshop and future rulemaking process.

Sincerely:

David G. Hutchens
Vice President