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WESTERN RESOURCE
ADVOCATES

May 29, 2009

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

RE: IN THE MATTER OF THE INVESTIGATION OF REGULATORY AND RATE INCENTIVES FOR GAS AND ELECTRIC UTILITIES. DOCKET NOS. E-00000J-08-0314 and G-00000C-08-0314

Western Resource Advocates
Proposed Wording for Electric Energy Efficiency Rule

As requested by Staff, Western Resource Advocates (WRA) hereby submits its proposed wording for a rule on energy efficiency for **electric utilities**. Attachment A presents our proposal along with comments on specific aspects of the proposal.

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Attachment A
WRA Proposed Rule and Comments

Proposed Wording	Comments
R14.2.xx01. Definitions. A. Affected Utility. A public service corporation serving retail electric load in Arizona, but excluding any such public service corporation that has at least half its retail electric customers outside Arizona. B. Annualized Gross Savings Additions. The annualized MWh savings resulting from installations of Energy Efficiency measures made during a specified year. C. Energy Efficiency. Programs or measures designed to use less electricity to perform the same function such as space cooling, refrigeration, motor power, and so forth. D. Total Energy Resources Needed to Meet Retail Load. MWh of electricity and savings equal to retail sales + losses + retail load met by distributed energy resources + Energy Efficiency savings + losses avoided by distributed energy and Energy Efficiency savings.	Note that annualized gross savings additions pertain only to installations made in a given year and are calculated without adjusting for termination of savings from previously installed efficiency measures whose lives expired prior to the specified year.

Proposed Wording	Comments
R14.2.xx02. Efficiency Standard. A. Each Affected Utility shall obtain Annualized Gross Savings Additions in each year sufficient to meet the requirements on the schedule set forth below as a percentage of Total Energy Resources Needed to Meet Retail Load in that year unless otherwise ordered by the Commission. 2011, 1.25% 2012, 1.50% 2013, 2% 2014, 2% 2015, 2% 2016, 2% 2017 and thereafter, 2.25% B. An Affected Utility may count Annualized Gross Savings Additions from installations of Energy Efficiency measures during the specified year by its retail customers if those installations resulted from new programs or policies adopted by state or local governments. 1. These savings may only be counted if they are not included in the Affected Utility's Energy Efficiency programs or measures. 2. The savings counted pursuant to this Paragraph B shall not exceed 20% of the Affected Utility's Annualized Gross Savings Additions resulting from the Affected Utility's efficiency programs in any year. 3. State and local government programs and policies include building codes adopted after the effective date of this rule, energy efficient state or local government facilities constructed after the effective date of this rule, or state appliance standards adopted after the effective date of this rule. 4. The Affected Utility must clearly demonstrate any claimed additional energy savings. C. Any Annualized Gross Savings Additions obtained in any year in excess of the standard for that year may be banked and used by the Affected Utility to help meet the standard in subsequent years. D. An Affected Utility may not count a project used to meet the Renewable Energy Standard and Tariff (A.A.C. R14-2-1801 et seq.) to also meet the efficiency standard required by this rule. E. Cooperatives may propose different standards in their implementation plans filed pursuant to R14.2.xx03 if they demonstrate that they do not have sufficient capability to meet the standards set forth in Paragraph A of this subsection.	1. The standard applies to gross annualized additions to savings, not to net or gross cumulative savings. Thus, the Commission can avoid contentious debates about the lifetimes of measures installed previously and about what previous programs qualify for meeting the standard. 2. The level of savings achieved by 2020 would be ~80% of the growth of energy requirements from 2009 to 2020 based on APS' resource plan. This is an aggressive target that exceeds the savings achieved from 2001 to 2006 nationally by the states with the most aggressive efficiency programs (~60% of growth in retail sales that would have occurred in the absence of efficiency programs). 3. WRA does not oppose using retail sales as the denominator of the efficiency standard instead of Total Energy Resources Needed to Meet Retail Load in a given year.

Proposed Wording	Comments
R14.2.xx03. Implementation Plans. A. Beginning July 1, 2010 and every July 1st thereafter, each Affected Utility shall file with Docket Control for Commission review and approval a plan that describes how it intends to comply with these rules. B. The implementation plan shall contain the following information: 1. A quantitative analysis or description of the baseline level of electricity consumption and associated costs that would have occurred in the absence of the Affected Utility's Energy Efficiency programs. 2. A description of the Energy Efficiency programs or program revisions it plans to undertake over the next 3 years in order to meet or exceed the Efficiency Standard. 3. A description of the methods by which Energy Efficiency programs will be implemented and marketed, including any incentives offered to customers. 4. Forecasts of annual and lifetime energy (MWh) savings and incremental and cumulative peak demand (MW) savings by program. 5. Projections of program costs, societal costs, societal benefits, and societal net benefits (societal benefits minus societal costs) over the lifetime of the measures included in the Energy Efficiency programs, taking into account risk and uncertainties. To the extent practicable, societal costs and societal benefits shall include environmental costs and benefits of Energy Efficiency programs. a. Societal benefits include avoided fuel and purchased power costs, avoided operating and maintenance costs, avoided or deferred capital costs (such as costs of new generating equipment or purchases of generation capacity and costs of distribution and transmission facilities), reductions in air emissions, reductions in emissions of pollutants into surface or ground water, and reductions in water use associated with avoided power generation. Parties may present for the Commission's consideration estimates of health effects, effects on visibility, and other environmental effects for the purposes of evaluating the societal benefits of Energy Efficiency programs. b. Societal costs include program costs incurred by the Affected Utility and incremental customer costs (above the baseline) of participating in an Energy Efficiency program. 6. A detailed 3 year budget. 7. Proposed degree of flexibility for transferring funds among Energy Efficiency programs. 8. Projections of performance incentives associated with program implementation. 9. Proposed termination of existing Energy Efficiency programs. 10. Proposed recovery of program costs and performance incentives through a Commission-approved adjustment clause or other means. Affected Utilities may propose capitalization of program costs. C. Implementation plans shall include Energy Efficiency programs for residential, non-residential, and low income residential customers. Implementation plans may include self-directed programs for larger nonresidential customers.	

Proposed Wording	Comments
R14.2.xx04. Cost Effectiveness of Energy Efficiency Programs A. Affected Utilities shall propose Energy Efficiency programs that are expected to result in positive societal net benefits as those net benefits are defined in R14.2.xx03 (B) (5). However, each individual measure within a cost effective program need not be cost effective on a stand-alone basis. B. Energy Efficiency programs primarily intended to serve an Affected Utility's low income residential customers need not exhibit positive societal net benefits. C. Energy Efficiency programs shall be regularly evaluated for cost effectiveness as set forth in the Commission's review of program activities pursuant to R14.2.xx05.	
R14.2.xx05. Annual Reports. A. Beginning April 1, 2012 and every April 1st thereafter, each Affected Utility shall file with Docket Control for Commission review a report describing compliance with these rules. The report shall contain the following information. 1. Whether the Affected Utility has met, exceeded, or failed to meet the efficiency standard for the previous calendar year. 2. For each Energy Efficiency program, program costs, annualized energy savings, demand savings, lifetime energy savings, societal costs, societal benefits, and societal net benefits for measures installed in the previous calendar year. Societal costs, societal benefits, and societal net benefits are defined in R14-2-xx03 (B) (5). 3. Cumulative energy and demand savings occurring in the previous calendar year, with the calculation starting with measures installed in 2005 and taking into account expiration of the lifetimes of measures installed in previous years. 4. Performance incentives for the previous year. 5. Results of monitoring, evaluation, and research conducted pursuant to R14.2.xx06. 6. Proposed adjustments to recovery of costs and performance incentives based on monitoring, evaluation, and research activities or on other information. 7. A discussion of the need for revisions to Energy Efficiency programs based on experience. These revisions may be incorporated in subsequent implementation plans. 8. Discussion of the need for termination of any Energy Efficiency programs. B. The Commission shall review annual reports in an open meeting or in a hearing.	

Proposed Wording	Comments
R14.2.xx06. Monitoring, Evaluation and Research A. Each Affected Utility shall have each of its active Energy Efficiency programs reviewed by an independent reviewer at least once every three years for the purpose of refining savings estimates, estimates of societal costs, and estimates of societal benefits. B. If an Affected Utility desires to count savings from state and local government policies and programs toward meeting the efficiency standard, the savings from those state and local government policies and programs must be reviewed as part of the studies required by Paragraph A. C. Staff shall select a competent independent reviewer or reviewers to conduct the studies required by Paragraph A and the reviewer(s) shall report to Staff and the Affected Utility. However, the independent reviewer(s) shall be paid by the Affected Utility whose efficiency programs and measures are being studied.	
R14.2.xx07 Cost Recovery A. Affected Utilities shall, upon Commission approval, recover program costs and performance incentives for Commission-approved efficiency measures and programs through the utility's demand side management adjustment clause or other mechanism authorized by the Commission. B. To the extent practicable, program costs and performance incentives shall be recovered concurrently with program implementation.	
R14.2.xx08 Other Ratemaking Treatments A. The Commission shall consider proposals from Affected Utilities and other parties in rate cases and other applicable proceedings concerning recovery of costs, incentives, and reduction of financial disincentives resulting from the implementation of Commission-approved Energy Efficiency programs.	

Proposed Wording	Comments
R14.2.xx09. Performance Incentives A. Until such time as the Commission orders a different performance incentive in a rate case or other proceeding, an investor-owned Affected Utility shall receive a performance incentive in a specified year as follows: 1. The performance incentive shall equal $30 per MWh of Annualized Gross Savings Additions in a specified year multiplied by the fraction of the efficiency standard met in that year (where the fraction is expressed as 1.00 if the efficiency standard is met exactly). a. Example: if an Affected Utility achieves 105% of the efficiency standard for a particular year, the performance incentive would be $30 per MWh of Annualized Gross Savings Additions x 1.05 = $31.50 per MWh of Annualized Gross Savings Additions. b. Example: if an Affected Utility achieves 80% of the efficiency standard for a particular year, the performance incentive would be $30 per MWh of Annualized Gross Savings Additions x 0.80 = $24.00 per MWh of Annualized Gross Savings Additions. 2. For the purposes of the calculation set forth in Paragraph A (1), Annualized Gross Savings Additions shall include avoided transmission and distribution losses. 3. The performance incentive shall apply only if the Affected Utility has met or exceeded 50% of the efficiency standard for the specified year. 4. The performance incentive shall be capped at 20% of program costs (excluding the performance incentive) in the specified year. B. Performance incentives shall not apply to member-owned cooperatives. C. If the Commission has authorized a larger performance incentive for a particular Affected Utility in another proceeding prior to the effective date of this rule, then the larger performance incentive shall replace the incentive set forth in paragraph A for that Affected Utility.	***Example:*** Assume APS' annualized gross MWh savings from measures installed in a given year are 400 GWh and that these annualized additions exactly meet the standard. The incentive is thus $30 per MWh of savings additions and the value of the incentive for that year would be $12 million. The cap would likely not be binding. ***Comparison with APS rate case settlement:*** If APS' efficiency additions in a given year meet the standard and are 400 GWh, if the average measure lifetime is 10 years, and if net benefits are $25 per lifetime MWh saved, then net benefits would be $100 million and APS' performance incentive in the given year under the settlement agreement would be 7% of net benefits or $7 million. The cap would likely not be binding. ***Comparison with APS' May 20, 2009 proposal:*** APS' performance incentive would be same as under the rate case settlement (see above) + $10 million for its proposed enhanced performance incentive (assuming the same conditions described above) = $17 million, if the cap was not binding. ***Effect of cap:*** The cap would likely be binding if program costs were less than about $12 to $15 per lifetime MWh saved.
R14.2.xx10. Waivers. A. The Commission may waive compliance with any provision of this Article for good cause. B. Any Affected Utility may petition the Commission to waive compliance with any provision of the Article for good cause.	