OPEN MEETING

MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 9, 2009

RE: UNS ELECTRIC, INC.-APPLICATION FOR APPROVAL OF ADDITIONAL FUNDING FOR ITS COMPACT FLUORESCENT LAMP BUY-DOWN PROGRAM (DOCKET NO. E-04204A-08-0341)

BACKGROUND

On April 9, 2009, UNS Electric, Inc. ("UNSE" or "Company") filed an application for approval of additional funding for its Compact Fluorescent Lamp ("CFL") Buy-down Program ("Program"). On July 3, 2008, UNSE filed its demand-side management ("DSM") CFL Program for 2008-2012. On October 23, 2008, the Commission issued Decision No. 70556 granting approval of UNSE's CFL Program including Staff's recommended reporting requirements. In addition, the Commission ordered UNSE to file a report that studies and analyzes alternative means to implement a CFL program that ensures that only its customers and ratepayers benefit from any of the rebates from such a program, no later than June 1, 2009. The Commission further ordered that one of the alternatives analyzed in UNSE's report shall include a coupon program similar to the one proposed by Mr. Marshall Magruder in his July 28, 2008 comments.

On March 24, 2009 (E-04204A-06-0783), UNSE filed an application for approval to revise its DSM surcharge beginning June 1, 2009 in accordance with Decision No. 70360, to recover the costs of its DSM programs through its DSM Surcharge. The increased Surcharge was based on projected spending that included the proposed additional CFL funding. UNSE's March 24, 2009, filing is currently pending Commission approval. In the current application, UNSE is requesting approval to increase the funding amount for the Program by $108,250. The application incorrectly states that the proposed increase amount is $148,611.

According to UNSE, because the CFL Program was implemented in December 2008, the Company was unable to achieve the total 2008 Program savings or to determine the success of the Program given the timing of the implementation. However, UNSE states that based on the success of its affiliate's, Tucson Electric Power Company ("TEP"), CFL Program during the first six months of implementation[1], UNSE anticipates that the demand for CFLs under its own Program will exceed the anticipated demand cited in its current Commission-approved program (Decision No. 70556).

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[1] See Docket No. E-01933A-07-0401. Request for additional funding filed April 9, 2009.

PROGRAM SUMMARY

UNSE's CFL Program promotes the installation of energy-efficient Energy Star® approved lighting products by residential and small commercial customers in UNSE's service area. In addition, UNSE states that preliminary CFL sales for January and February 2009 indicate that the Company will see similar results to that of TEP.

UNSE along with Ecos Consulting, Inc. ("ECOS"), the implementation contractor selected by UNSE, negotiate discount pricing from CFL manufacturers and retailers through incentives paid to the manufacturers[2]. 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. UNSE'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 UNSE's residential and small commercial customers although the Program is available to all UNSE customers. Compact fluorescent lamps are substantially more expensive than traditional incandescent lamps. However, UNSE's CFL Program allows participating customers to see savings from reduced power and energy use.

BUDGET AND ENERGY SAVINGS

Table 1 below shows UNSE'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	$225,000	$231,750	$238,703	$245,864	$253,239
Incentives	$124,605	$128,343	$132,193	$136,159	$140,244
Administrative/Implementation Costs	$100,395	$103,407	$106,509	$109,704	$112,995
Incentives as % of Budget	55.4%	55.4%	55.4%	55.4%	55.4%

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

[2] 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. UNSE's CFL program structure is the same as used by Arizona Public Service for its CFL program.

Table 2 2009-2013 Proposed increased program budget

Year	Original 2009	2009	2010	2011	2012	2013
Total Budget	$231,750	$340,000	$350,200	$360,706	$371,527	$382,673
Incentives	$128,343	$233,376	$240,377	$247,589	$255016	$262,667
Administrative/Implementation Costs	$103,407	$106,624	$109,823	$113,117	$116,511	$120,006
Incentives as % of Budget	55.4%	68.6%	68.6%	68.6%	68.6%	68.6%

Table 3 below compares the original budget allocation for 2009 and the proposed budget allocation for 2009.

Budget Allocation	Original 2009	2009
Managerial & Clerical	$5,784	$4,080
Travel & Direct Expenses	$297	$3,060
Overhead	$12,459	$3,060
Total Administrative Cost	$18,540	$10,200
Internal Marketing Expense	$19,699	$27,200*
Subcontracted Marketing Expense	$19,699	$27,200*
Total Marketing Cost	$39,398	$54,400*
Incentives to Upstream Participants	$128,343	$233,376
Consumer education-Labor	$0	$14,586
Implementation Contractor Direct Expense	$1,646	$14,586
Travel & Training	$34,553	$2,652
Total Direct Installation Cost	$164,542	$265,200
Evaluation, Measurement, & Verification ("EM&V")	$5,192	$5,713
EM&V Overhead	$4,078	$4,487
Total EM&V Cost	$9,270	$10,200
Total Program Budget	$231,750	$340,000

*Indicates corrected values

UNSE 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 UNSE'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	80,390	82,802	85,286	87,845	90,480
Peak Demand Savings (kW)	302	311	320	330	340
Energy Savings (kWh)	2,578,235	2,655,582	2,735,249	2,817,307	2,901,826

Table 5 New Sales, Demand, and Energy Savings Projection

Year	Original 2009	2009	2010	2011	2012	2013
Projected Lamp Sales	82,802	200,255	206,263	212,451	218,824	225,389
Peak Demand Savings (kW)	311	1,022	1,053	1,084	1,117	1,150
Energy Savings (kWh)	2,655,582	11,261,022	11,598,853	11,946,819	12,305,223	12,674,380

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 UNSE's CFL Program is cost-effective, with a benefit/cost ratio of 4.65. In addition, the Program would result in approximately $2.4 million in net benefits to society over the lifetime of the measure.

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

Savings	Original	New	
SO_x	10,677	46,633	lbs
NO_x	34,494	150,661	lbs
CO_2	22,257,009	97,212,519	lbs

RESPONSE TO PUBLIC COMMENT AND PROPOSED ALTERNATIVES

On July 28, 2008, Marshall Magruder filed comments in opposition to and a proposed alternative to UNSE's CFL filing. Mr. Magruder's comments stated that UNSE's proposed CFL Program was not in the public interest, meaningless, and amounted to corporate welfare. Mr. Magruder proposed an alternative program in which UNSE would provide customers with rebate CFL coupons, via the customer's billing statement. The customer would then redeem the rebate coupons at participating retailers. Retailers would mail the redeemed coupons to UNSE and be reimbursed the upfront costs incurred from when the customer initially redeemed the coupon. Mr. Magruder stated that his proposed rebate coupon was more cost effective.

On May 12, 2009, UNSE filed its Study and Report of Alternative CFL Coupon Program ("Report") in accordance with Decision No. 70556. The Report discusses the concerns Mr. Magruder expressed in his July 28, 2008 comments. In addition, the Report provides budget comparisons as well as benefit/cost analysis comparisons of UNSE's Commission-approved CFL

Program and the alternative program proposed by Mr. Magruder. The Report shows that under Mr. Magruder's proposed alternative, incentives represent a smaller portion of the budget, the average cost per CFL would be higher, and there would be fewer CFLs sold.

During the early stages of the developing CFL Program, UNSE considered a coupon or rebate program similar to the alternative proposed by Mr. Magruder. However, after discussions with other utilities and implementation contractors, and after the success of the Arizona Public Service Company ("APS") program, UNSE concluded that the manufacturer buy-down program model was the most efficient approach.

The buy-down allows UNSE to negotiate lower prices for the CFLs because of the purchase quantities, ensure that the participating retailers stock the appropriate products that meet the Energy Star® requirements, organize on-site training and sales seminars at participating retailer locations to help educate customers on how to and encourage customers to use CFLs, and take advantage of retailer marketing which helps reduce the utility marketing costs.

RECOMMENDATIONS

Based upon Staff's review and analysis of the benefits and costs of UNSE's application, Staff recommends that UNSE's proposed budget increase for its Compact Fluorescent Lamp Buy-Down Program be approved. In addition, Staff recommends that Mr. Magruder's alternative be rejected.

for Ernest G. Johnson
Director
Utilities Division

EGJ:CLA:lhm\NS

ORIGINATOR: Candrea Allen

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 UNS ELECTRIC, INC FOR APPROVAL OF ADDITIONAL FUNDING FOR ITS COMPACT FLUORESCENT LAMP BUYDOWN PROGRAM	DOCKET NOS. E-04204A-08-0341 DECISION NO. __________ ORDER

Open Meeting
June 23 and 24, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Electric, Inc. ("UNSE" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

BACKGROUND

2. On April 9, 2009, UNSE filed an application for approval of additional funding for its Compact Fluorescent Lamp ("CFL") Buy-down Program ("Program"). On July 3, 2008, UNSE filed its demand-side management ("DSM") CFL Program for 2008-2012. On October 23, 2008, the Commission issued Decision No. 70556 granting approval of UNSE's CFL Program including Staff's recommended reporting requirements. In addition, the Commission ordered UNSE to file a report, no later than June 1, 2009, that studies and analyzes alternative means to implement a CFL program that ensures that only its customers and ratepayers benefit from any of the rebates from such a program. The Commission further ordered that one of the alternatives analyzed in UNSE's

report shall include a coupon program similar to the one proposed by Mr. Marshall Magruder in his July 28, 2008 comments.

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4. According to UNSE, because the CFL Program was implemented in December 2008, the Company was unable to achieve the total 2008 Program savings or to determine the success of the Program given the timing of the implementation. However, UNSE states that based on the success of its affiliate's, Tucson Electric Power Company ("TEP"), CFL Program during the first six months of implementation[1], UNSE anticipates that the demand for CFLs under its own Program will exceed the anticipated demand cited in its current Commission-approved program (Decision No. 70556).

PROGRAM SUMMARY

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

BUDGET AND ENERGY SAVINGS

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11. UNSE 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.

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BENEFIT/COST ANALYSIS

13. 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.

14. Staff's benefit/cost analysis has concluded that UNSE's CFL Program is cost-effective, with a benefit/cost ratio of 4.65. In addition, the Program would result in approximately $2.4 million in net benefits to society over the lifetime of the measure.

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

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<u>RESPONSE TO PUBLIC COMMENT AND PROPOSED ALTERNATIVES</u>

16. On July 28, 2008, Marshall Magruder filed comments in opposition to and a proposed alternative to UNSE's CFL filing. Mr. Magruder's comments stated that UNSE's proposed CFL Program was not in the public interest, meaningless, and amounted to corporate welfare. Mr. Magruder proposed an alternative program in which UNSE would provide customers with rebate CFL coupons, via the customer's billing statement. The customer would then redeem the rebate coupons at participating retailers. Retailers would mail the redeemed coupons to UNSE and be reimbursed the upfront costs incurred from when the customer initially redeemed the coupon. Mr. Magruder stated that his proposed rebate coupon was more cost effective.

17. On May 12, 2009, UNSE filed its Study and Report of Alternative CFL Coupon Program ("Report") in accordance with Decision No. 70556. The Report discusses the concerns Mr. Magruder expressed in his July 28, 2008 comments. In addition, the Report provides budget comparisons as well as benefit/cost analysis comparisons of UNSE's Commission-approved CFL Program and the alternative program proposed by Mr. Magruder. The Report shows that under Mr. Magruder's proposed alternative, incentives represent a smaller portion of the budget, the average cost per CFL would be higher, and there would be fewer CFLs sold.

18. During the early stages of the developing CFL Program, UNSE considered a coupon or rebate program similar to the alternative proposed by Mr. Magruder. However, after discussions with other utilities and implementation contractors, and after the success of the Arizona Public Service Company ("APS") program, UNSE concluded that the manufacturer buy-down program model was the most efficient approach.

19. The buy-down allows UNSE to negotiate lower prices for the CFLs because of the purchase quantities, ensure that the participating retailers stock the appropriate products that meet the Energy Star® requirements, organize on-site training and sales seminars at participating retailer locations to help educate customers and encourage them to use CFLs, and take advantage of retailer marketing which helps reduce the utility marketing costs.

RECOMMENDATIONS

19. Based upon Staff's review and analysis of the benefits and costs of UNSE's application, Staff has recommended that UNSE's proposed budget increase for its Compact Fluorescent Lamp Buy-Down Program be approved. In addition, Staff has recommended that Mr. Magruder's alternative be rejected.

CONCLUSIONS OF LAW

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

2. The Commission has jurisdiction over UNSE and over the subject matter of the Application.

3. The Commission, having reviewed the application and Staff's Memorandum dated June 9, 2009, concludes that it is in the public interest to approve the UNSE request for additional funding for its Compact Fluorescent Lamp Buydown Program.

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ORDER

IT IS THEREFORE ORDERED that UNS Electric, Inc.'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 the alternative Compact Fluorescent Lamp Program proposed by Mr. Magruder be rejected.

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:lhm\NS

SERVICE LIST FOR: UNS Electric, Inc.
DOCKET NOS. E-04204A-08-0341

Mr. Michael W. Patten
Mr. Jason Gellman
ROSHKA DEWULF & PATTEN, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Mr. Philip J. Dion
UniSource Energy Services
One South Church Avenue, Suite 200
Tucson, Arizona 85701

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007