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ARIZONA CORP. COMM
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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
UNS ELECTRIC, INC. FOR APPROVAL OF ITS
DEMAND SIDE MANAGEMENT COMPACT
FLOURSCENT LAMP BUY-DOWN PROGRAM

Docket No. E-04204A-08-0341

ACC Decision No. 70556

RESPONSE TO
THE UNS ELECTRIC REPORT CONCERNING AN ALTERNATIVE CFL COUPON
PROGRAM AND CLF DSM PROGRAM APPLICATION

17 JUNE 2009

This filing contains responses to the UNS Electric's study and report concerning an Alternative CFL Coupon Program and the UNS Electric's CLF DSM Program Application for additional funding for a program that started in January 2009, based only on results of other utility companies.

Attachment A contains a detailed review of the company's study and review of an Alternative Coupon approach for managing a CFL program. There are both similarities and differences presented and summarized on the first page of Attachment A.

There is NO disagreement between the Company and Marshall Magruder about the importance of this program, only differences in processes and financial details, to achieve the same goal, that is to reduce electrical demand with energy efficient lighting.

The Application for consideration, after a detailed review, clearly reflects the "buy down" approach and discounts the features of a coupon approach.

This difference is a judgment issue that only the Commissioners can determine.

Thank you for considering both approaches.

Respectfully submitted on this 17th day of June 2009.

MARSHALL MAGRUDER

By

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Arizona Corporation Commission

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1 Attachments

2 A – Review of the UNS Electric Report Concerning an Alternative CFL Coupon Program

3 B – Copy of the type of Coupon with Similar Features in the Alternative Coupon Program

4
5
6 **Service List**

7 Original and 16 copies are filed this date:

8
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2 **Review of the**
3 **UNS Electric Report Concerning an Alternative CFL Coupon Program**
4

5 **1. Summary.**

6 This review, in general, compares the two different programs, and corrects erroneous information
7 found for the "coupon" alternative compared to the "buy down" approach. Many issues, directly
8 from the UNSE Coupon Report, are discussed in order presented in the document. These issues
9 include coupon users, predicated lamp sales, energy savings, coupon processing, program
10 management, budget and financial differences, cost benefit comparisons, and conclusions.

11 The key results for both programs were very close, maybe a few percentage points of
12 difference in terms of cost per lamp and energy savings.

13 The most significant numeric difference is that incentives were 82.8% of the budget for the
14 coupon program compared to 55.4% for the "buy down" program. Further, as discussed, the
15 coupon program has less "leakage" by having non-UNSE customers purchasing the lamps as
16 compared to coupons issued directly by the utility for its customers.

17 Subjective differences were also significant; in particular, when a ratepayer goes to a store
18 with a coupon, the likelihood of a purchase is much higher than an "impulse" sale based on
19 seeing a display when walking through a store. Further, a coupon customer sees the discount at
20 checkout a result of purchasing a CFL lamp when the discount is directly applied to lower the bill.
21 However, under the "buy down" program, only through cost comparisons between products will
22 the customer notice and change. No all customers make cost comparisons, especially when
23 comparing CFL lamps to incandescent bulbs due to the technical electrical kW and kWh
24 conversions, lumens and life cycle conversions needed. Most of the public does not understand
25 how to make these comparisons necessary for price comparisons.

26 The coupon clearly is marked with the utility's name and that association is reviewed each
27 time the coupon is seen until redeemed for an EnergyStar®-certified CFL lamp discount.

28 Using today marketing processes, with a ratepayer's ID on each coupon, SKUs are used for
29 both coupon and product tracking (see Attachment B), and can provide detailed analysis of who
30 purchased what EnergyStar® product, when and where for quality control and later program
31 tracking.

32 One side benefit of the coupon approach is that many coupon processing organizations are
33 non-profit, such as church groups, Native American tribes, or groups of homemakers that enjoy
34 this kind of work, with lower paid jobs and for many, and those without other employment skills.
35

1 **2. Background.**

- 2 • On 3 July 2008, UNS Electric filed a letter with the Commission a proposed Compact
- 3 Fluorescent Lamp Buy-down Program, 2008-2012 that was filed by the Commission as a New
- 4 Application in ACC Docket No. E-04204A-08-0341.¹
- 5 • On 22 July 2008, Marshall Magruder filed comments on this program.²
- 6 • On 30 September 2008, the Utilities Division filed a Staff Report and a Recommended Opinion
- 7 and Order (ROO) to the Commission in preparation of an Open Meeting.³
- 8 • On 15-16 October 2008, Marshall Magruder appeared before the Commission at this Open
- 9 Meeting and recommended a 'coupon' approach as it would be 'cheaper, faster, easier' than
- 10 the proposed approach in the Application and ROO.
- 11 • On 23 October 2008, the Commission approved ACC Order No. 70556 that approved the
- 12 UNS Electric Application and also ordered the company to analyze alternatives including the
- 13 one proposed by this party and to provide a report by 1 June 2009.
- 14 • On 24 March 2009, UNS Electric filed an Application to approval of its DSM Programs,
- 15 including the CLF Program, starting on 1 June 2009.
- 16 • On 1 April 2009, UNS Electric filed its Semi-Annual DSM Report that covered 1 January 2008
- 17 through 31 December 2008, and includes the UNS Electric CFL DSM Program results.
- 18 • On 9 April 2009, UNS Electric requested additional funding for the CFL Buy-down program.
- 19 • On 12 May 2009, UNS Electric filed a study and report on Alternative CFL Coupon Program
- 20 and "alternative means to implement a CFL program that ensures only its customers and
- 21 ratepayers benefit from any of the rebates from such a program."⁴
- 22 • On 18 May 2009, Marshall Magruder filed a Motion to Postpone from the May to 23-24 June
- 23 Open Meeting non-time critical decisions concerning this a other issued due to extenuating
- 24 circumstances.
- 25 • On 9 June 2009, the Utilities Division filed a Staff Report and a ROO to the Commission in
- 26 preparation of an Open Meeting on 23-24 June 2009.

27 This filing is to the Commission for consideration at 23-24 June 2009 Open Meeting.

28 **3. Issues discussed in the UNSE Coupon Report.⁵**

29 **3.1 Coupon Users.**

30 **3.1.1 Leakage – purchases by individuals living outside the utilities' service area.⁶**

- 31 a. There are several utility companies also service Santa Cruz and Mohave Counties,
- 32 including TRICO, Sulphur Valley Springs Electric Co-operative and Arizona Public Service
- 33 Company (APS) with additional utilities across county, state or national boundary lines.

34 ¹ UniSource Energy Services letter, "UNS Electric, Inc.'s Compact Fluorescent Lamp
35 Buy down Program," of 3 July 2008, hereafter "UNSE CFL Application".

36 ² Marshall Magruder, "Comments on UNS Electric's Compact Fluorescent Lamp Buy down Program 2008-
37 2012," ACC Docket No. E-04204A-08-0341, of 22 July 2008, hereafter "Magruder CFL Comments".

38 ³ ACC Utilities Division, "UNS Electric, Inc. – Application for Approval of its Compact Fluorescent Lamp Buy-
39 Down Program (ACC Docket No. E-04204A-08-0341), of 30 September 2008, hereafter "Staff Report on the
40 Application".

41 ⁴ UniSource Energy Services letter, "UNS Electric, Inc.'s study and report of Alternative CFL Coupon
42 Program," Decision No. 70556, Docket No. E-04204A-08-0341, hereafter "UNSE Coupon Report".

43 ⁵ UNSE Coupon Report, 5 to 9.

44 ⁶ *Ibid.* 5.

1 Leakage will occur more frequently under the “buy-down” program; however, under the
2 “coupon” program, only UNS Electric customers will have coupons.

3 b. The largest customer base in Table 1 of the Analysis is in Lake Havasu, on the border with
4 California. Many Californians shop in Arizona due to our traditionally lower prices and
5 sales taxes. Personally, I can’t wait to leave California when traveling due to the higher
6 prices throughout that state. Since Lake Havasu has many fixed-income, retired residents,
7 bargains are always important when shopping. In general, older, fixed-income, retired
8 shoppers use coupons more often than younger “yuppies”.

9 c. Leakage in Nogales is significant. Over 40% of the City of Nogales sales tax revenue is
10 from border crossers shopping primarily at the one Wal-Mart and one Home Depot stores.
11 The City of Nogales does not have a property tax because of the financial benefits these
12 shoppers bring to the City. I have surveyed the parking lots looking at car license plates,
13 several times. Each time a majority of these cars were from Mexico, thus being my basis
14 for “over 50% from Mexico.” Based on my observations, these customers appear to be the
15 major spenders at Wal-Mart, much more than ‘groceries’ as in the Report, and about equal
16 to the Arizona customers at Home Depot found on every isle. Several years ago, the
17 *Arizona Daily Star* reported the spending per day in the US by Mexican visitors averaged
18 over \$500 and they are major economic drivers in Santa Cruz and Pima Counties. They
19 come specifically to the Nogales Wal-Mart for the low prices that the “buy-down” program
20 will offer; however they won’t be able to obtain similar results using utility-issued
21 “coupons”. Actually, more of these border crossers shop in Green Valley, Tucson and
22 Phoenix than in Nogales. In general, based on my observations, on Saturday mornings at
23 least 25% of the automobiles going north on I-19 have Mexican plates, and the same
24 percentage going south early Sunday evening. These are the “shoppers” stimulate our
25 southern Arizona economy.

26 d. Coupons will only be available to UNS Electric customers and ratepayers, and not for
27 customers of other utilities, not for customers who live in other service areas, and not for
28 customers who live in other states or countries.

29 e. The company’s concern about the 17% of customers in Nogales is very misleading. There
30 are thousands more UNS Electric customers living in Rio Rico and the Northwest part of
31 Santa Cruz County than the City of Nogales. Further, in 2007, during the “boom” building
32 years, only 59 homes were constructed in Nogales. Some 600 or more in Rio Rico, where
33 new homes will need lights. Many residents of Rio Rico shop at the Green Valley,
34 Sahuarita, or Tucson’s Wal-Mart and Home Depots, “leaking” into TEP’s service area.

1 f. Summary. In comparison, utility issued coupons will have less leakage as anyone who
2 sees low prices for a “buy-down” CLF lamp will end up charging UNS Electric ratepayers
3 for the unjustified “buy-down”. The “buy down” program cannot track or account for
4 “leakers” only lamps. The coupon program is superior with respect to leakers.
5

6 3.1.2 Free Riders – purchases by program participants that would have installed CFL lights in the
7 absence of the program.⁷

8 a. In general, many customers purchase CLF lights as a personal measure to conserve
9 energy, reduce their electricity costs, and reduce pollution through energy efficiency
10 measures. These Free Rider customers consider these factors more important than cost.
11 Neither program will significantly impact their buying behavior.

12 b. Customers with lower incomes are less likely to pay more for a product with long-term
13 benefits and are more likely to purchase the “cheapest” CFL or incandescent product
14 under almost all circumstances. These are not Free Riders.

15 c. Summary. There appears to be no difference between the two programs for Free Riders.
16

17 3.1.3 Give-a-way Coupons – purchases by customers who are given coupons by UNS Electric
18 customers from their billing statement.⁸

19 a. In general, if the recipients were UNS Electric customers, they could still use these
20 coupons with no negative impacts on the program. This could be a neighbor giving the
21 coupon to her friend, obviously, in the same service area.

22 b. Under most unusual circumstances would a UNS Electric customer give their coupon to
23 someone who lived far away, and such a case would probably be unique. Also, the sample
24 coupon in the Magruder filing stated it had to be used in Arizona, thus, at least benefiting
25 the electricity infrastructure and environment in our great state.

26 c. Summary. Give-away Coupons is an insignificant issue.
27

28 3.2 Projected Lamp Sales – comparing coupons to store sales and media “blitzes”.⁹

29 a. As reported in a different filing, most media campaigns by utilities are not very successful.
30 Success is more related to “word of mouth” than newspaper, radio or TV ads.

31 b. Lamps are purchased either by

32 (1) Customers going to the store specifically to purchase a product, usually on the
33 shopping list, or by

34 ⁷ *Ibid.*

35 ⁸ *Ibid.* 6.

⁹ *Ibid.*

1 (2) "Impulse" buying when walking past a display.

- 2 c. Having a coupon to file with one's other coupons that they take to the store facilitates
3 getting buyers to put CLF lamps on their shopping list. Thus, every time one looks at their
4 coupon file, they are reminded of an opportunity to purchase a CFL. Other media
5 exposures only last once; a coupon can refresh one's memory more than once and maybe
6 many times until finally used to purchase the product.
- 7 d. Lamp sales by passing shoppers may create an "impulse" purchase. Using more
8 expensive product locations, such as "islands" or at the end of an aisle, gives more
9 exposure to help a shopper make an "impulsive" purchase.
- 10 e. The coupon approach has a better opportunity because it is "seen" more often than media
11 campaigns that are one-time events.
- 12 f. Summary. A coupon can continually refresh a buyer to purchase a produce while a store
13 display may result in an "impulse" purchase; therefore, coupons are more likely to result in
14 sales than either store displays or more expensive media campaigns.

15
16 3.2.1 Number of Lamp Sales – comparing coupons to lower cost lamps.¹⁰

- 17 a. The cost of a coupon is very low compared to the elaborate process used in the buy-down
18 approach. More than one coupon can be sent to ALL ratepayers who can deliberately use
19 them to purchase a CFL. Printing then on page 2 of the billing statement, below the
20 serrated line, cannot cost the 3 cents considered in the UNSE Coupon Report.¹¹
- 21 b. "Impulse" purchasers may compare prices, or may not compare prices. Price might not be
22 a deciding factor when just walking down aisles.
- 23 c. The buy-down displays in local Home Depot have small magnetic signs indicating that a
24 CFL has a UES markdown. These are insignificant. No "end of aisle" or island CFLs
25 displays are at Home Depot. I spent over 15 minutes a few weeks ago looking for UES-
26 marked CFLs at Wal-Mart, none could be found anywhere, and no clerks could help.
- 27 d. CFL special literature was not located. There was nothing to "grabs one's attention" to a
28 few special-priced CFLs.
- 29 e. Summary. With a CFL coupon in hand, the ratepayer has a higher probability to make a
30 purchase of a CFL than a customer, without a coupon, walking past a CFL on a shelf.

31 3.2.2 Appendix A – shows a program analysis that compares the two alternatives.¹²
32

33
34 ¹⁰ *Ibid.*

35 ¹¹ *Ibid.*

¹² *Ibid.*

- 1 a. There is only ONE input factor that is different when comparing both alternatives in
2 Appendix A. This is the "ratio of non-incentive to incentive costs", with 80.6% for the buy-
3 down program and 250.0% for the coupon program.
- 4 b. How was this ratio derived? Not explained. See 3.7.1 below.
- 5 c. By changing this one input, PV Program Cost and NPV change from 4,54 to 7.18 and from
6 4.18 to 1.55, respectively for the "buy-down" and coupon programs and TRC decreased
7 from 1.92 to 1.22 and Societal ratio from 2.18 to 1.38.
- 8 d. Further, other inputs in Appendix A are erroneous, in particular the residential (non-TOU)
9 rate for summer and winter energy costs should be between \$0.0902348 and \$0.0989262
10 per kWh instead of \$0.07100; for ON- and OFF-peak, the rates should be ON-Peak at
11 \$0.102086 and OFF-peak at \$0.072092 compared to an input of \$0.100078 from the
12 analysis. Since October 2008, the new line loss is 3.3% instead of 10.69%.
- 13 e. Summary. Without additional supporting information Appendix A is not conclusive proof.

14
15 3.2.3 Number of Lamps Purchased – coupon versus "buy-down".¹³

- 16 a. Redemption rates for coupons are low, with examples about 10%; however, the incentive
17 or rebate associated with the three studies cited make comparisons impossible. The
18 progressive nature, from 50 cents to 75 cents per lamp is not common. A multi-value
19 coupon, up to \$3.00, will provide a higher return rate compared to a 25-cent supermarket
20 coupon. This should make such a coupon more attractive.
- 21 b. Further, with multiple mailings, a second coupon might be held for the same ratepayer,
22 with a \$6.00 total value. Few shoppers pass on a \$3.00 coupon and fewer for \$6.00.
- 23 c. These coupons can be used for ANY EnergyStar® CFL but the "buy down" program is only
24 available for a selected subset of lamps, from an "unknown" manufacturer. Most shoppers
25 want reliable lamps and will usually chose a known brand, such as General Electric, even
26 if a bit more expensive, over the unknown brand with the "buy down" program.
- 27 d. These beneficial features, plus freedom to choose ANY lamp should enhance lamp sales
28 by at least the 50% claimed for the "coupon" approach.
- 29 e. Summary. The progressively increasing discount per additional lamp, with several dollars
30 per purchase saved, and the ability to purchase "name brand" products, make this coupon
31 approach attractive. These attractive features were not cited in references used in the
32 Report.
- 33 f. Summary, unless tested, these coupon features should enhance coupon redemption.
- 34
35

¹³ *Ibid.*

1
2 3.2.4 Coupon Redemption Rate – UNS Electric used a “liberal” 10% rate, decreasing by 3% to 7%,
3 and then by 2% more in next two subsequent mailings.¹⁴

- 4 a. Each person with a CFL coupon went to a store with a high probability of purchasing a
5 CFL. No such claim can be made for a “buy-down” program waiting for “impulse” buyers.
6 b. Most shoppers now know that CLF lamps are energy savers, especially if informed with
7 their electric bill. Redemption rates could be much higher and remain higher with
8 subsequent mailings. There are many more than a dozen in a residence. A ratepayer, who
9 has used a coupon once with additional mailings, will probably be repeat redeemer. Also
10 there are additional new redeemers, who missed prior mailings.
11 c. Due to the progressive, “freedom to chose”, and need for household CFL lamps, the
12 proposed coupon program, should have much higher than an average redemption rate.
13 d. Summary. Compared to “impulse” buyers and the need for many CFLs, increasing
14 redemption rates are highly likely with subsequent mailing. No repeat purchase claims for
15 the “buy down” program can be made for those going to a store without planning on
16 buying a CFL. Thus, at least 20% initial redemptions should occur increasing to 23% and
17 26% for subsequent mailings as each mailing as additional 5-8% become redeemers who
18 did not respond to a prior coupon.

19
20 3.2.5 Number of CFLs Purchased – The analysis assumed only two lamps per coupon.¹⁵

- 21 a. Each coupon is planned for one to four purchases, with discounts going from 50 cents to
22 75 cents per lamp, or between 50 cents and \$3.00. Most shoppers see the progressive
23 nature of these discounts and will chose more lamps, rather than fewer lamps.
24 b. As this number of lamps per coupon is untested and shoppers have a choice between 50¢
25 and \$3.00 and a higher discount of \$3.00 than \$1.20 (2 lamps). The 50 and \$1.20 are less
26 likely compared to \$2.10 and \$3.00. When I have asked people how many lamps they
27 would purchase under these conditions, at least 90% have said 4 lamps, and the others 2
28 or 3. Thus, it would be fair to assume 3 lamps per coupon will b redeemed.
29 c. Summary. In general, 3.0 lamps per coupon are assumed; however, no such assumption
30 can be made for the “buy down” program that only have a low price feature for some of the
31 many different CFLs available. Based on these two factors, we see Table 2 revised below:
32
33
34

35 ¹⁴ *Ibid.* 6-7, Table 2.

¹⁵ *Ibid.* 7.

Table 2 (revised). Estimate of Coupons Mailed and Lamp Sales

Mailing Number	Coupons Mailed	Redemption Rate	Coupons Returned	Total Lamp Sales @ 3 per coupon
1	91,365	20%	18,274	54,822
2	91,365	23%	21,014	63,042
3	91,365	26%	23,755	71,265
Totals	274,095		63,043	189,129

d. Summary. Up to 189,129 lamps could be redeemed compared to 40,202 in the company's analysis. This is 50% more than 124,203 cited in the UNSE Coupon Report.¹⁶

3.2.6 Direct Payback to Ratepayers – Coupons allow ratepayers to see the discount at checkout.¹⁷

- a. In my terminology, the ratepayer sees their retail bill directly reduced at checkout.
- b. This coupon program, just like thousands of other coupon programs used from cereals to soda pop to tennis balls, the retailer knows compensation will be at a later date.
- c. The "buy down" program pays some manufacturer to discount his price and, hopefully, that discount remains without changes through the supply chain to a customer. It takes one slightly unscrupulous individual in this manufacturer-to-distributer-to-customer process to take advantage of part or the entire discount as a "fee" for processing or any other ways defraud a trans-national supply system from China to Arizona. A coupon program avoids this temptation.
- d. Summary. The coupon program benefits ratepayers in the store while the "buy down" program indirectly may have similar benefits.

3.3 Energy Savings.

3.3.1 Lamp Wattage Impacts Cost – The "buy down" program considers wattage compared to the coupon program that appears to not consider wattage.¹⁸

- a. There are different discounts for different lamps in the "buy down" program while the number of lamps determines the coupon discount.
- b. Different discounts are intended to make CFL lamps competitive with incandescent lamps.
- c. Due to CFL package labeling, that comparison is on the package; however, it is doubtful if any purchaser will find and price an equivalent wattage (lumens are better) for both types.
- d. In general, the public does not understand lumens, watts or volts. Watts are probably the best indicator, again, but are very different between CFL and incandescent lamps.

¹⁶ *Ibid.* 6-7 and 9.

¹⁷ *Ibid.* 7.

¹⁸ *Ibid.*

- 1 e. The savings per lamp might be different under each program, thus UNS Electric might pay
2 higher rebates for lower energy savings per lamp.
3 f. Summary. This difference may result in higher sales for “buy down” program lamps than
4 the discount coupon or approach.

5
6 3.3.2 Reporting Watts is required for Quality Control - The “buy down” program considers wattage
7 compared to the coupon program that does not.¹⁹

- 8 a. When a retailer requests payment for a discount, he must quantify his sales, usually with
9 computer readouts of Stock-Keeping Unit (SKU) for the discount coupon matched to the
10 appropriate CFLs SKU for products sold. The sales clerk scans a coupon, notes the
11 discount (1 to 4) number, and then the SKU for CFLs in the purchase is automatically
12 checked before the discount is permitted to a customer. Based on SKU matching, a high
13 degree of quality control is achieved. A correct discount is applied, even if improperly
14 entered by the clerk.
15 b. Further, when the retailer requests to be compensated, UNS Electric can receive the SKU
16 numbers for the CFLs purchased. CLF manufacturer, CFL type, CFL wattage, discount,
17 and other parameters sort the characteristics for each CFL SKU. These automated reports
18 (as databases) can greatly benefit analysis in terms of exactly what CFL is selling where.
19 c. Again, the purchaser still has the freedom to chose any EnergyStar® lamp with correct
20 discount processing and automated way to perform quality control and meet the objections
21 in the Report. This ensures all purchases are for EnergyStar® CLF lamps and that the
22 number of CFL lamps purchased is actually used for the discount (not what is circled).
23 d. There is some legwork required to initialize the SKU Number for the coupon and its
24 redemption parameters, and usually, the setup for one store in a chain can work for all
25 stores in the same chain. Attached is a coupon with similar to the CFL coupon program.
26 e. Summary. Using SKUs, the coupon approach will have a very reliable and high quality
27 control system to permit accurate purchase tracking to any degree desired.

28 3.3.3 DSM Reports Require Accurate Reports of kW and kWh – Rebates must correlate with actual
29 CFL performance characteristics.²⁰

- 30 a. Summary. The use of SKU for coupons, discussed above, resolves this issue for the
31 coupon program.
32
33

34
35 ¹⁹ *Ibid.* 7-8.

²⁰ *Ibid.* 8.

1 3.4 Coupon Processing.

2 3.4.1 Retailers May Not Accept Coupons, or Charge a Fee – both programs involve retailers who
3 might not want to cooperate with either program.²¹

- 4 a. If a retailer does not accept a coupon or discounted merchandize, business is lost. With
5 hundreds of thousands of CFL lamps being sold, most savvy storeowners quickly go to the
6 back room to enter the coupon SKU number for acceptance by its cash registers.
7 b. Similarly, if a retailer does not want to participate in the “buy down” program, the same
8 results occur.
9 c. The sample coupon in the Coupon Proposal states a fee that will be paid to the retailer. If
10 not adequate, the retailer will have turn away customers at the cash register.
11 d. As retailer become know to accept these coupons, the UNS Electric should consider
12 printing on the back of the coupon these retailers names and addresses for each
13 subsequent mailing. The mailing list should be comprehensive as no agreements, other
14 than setting up a SKU, should be necessary.
15 e. Summary. There is no real difference between these two programs on the issues.

16
17 3.4.2 Retailers Must Cover Coupon Discounts Up Front – Reimbursements will be at a later date.²²

- 18 a. This is a common, used by millions of commercial enterprises for decades. Most retailers
19 are familiar with coupons and feel the wait for reimbursement is worth a happy customer.
20 b. When a coupon is reimbursed, the reimbursement fee per coupon processed and paid in
21 addition to the discounts to the retailer.
22 c. Summary. Retailers will seek reimbursement by submitting the discount coupons as stated
23 on the coupon. See Attachment B for an example.

24 3.4.3 Coupon Processing Requires Higher In-house Labor Costs – Coupon processing may be
25 expensive.²³

- 26 a. Coupons do not have to be processed by UNS Electric.
27 b. There are thousands of non-profit organizations, churches, Native American tribes and
28 other worthy groups who process billions of coupons a year, to the specification
29 requirements demanded by UNS Electric. After issuing a Coupon Processing RFP, a local
30 (in Arizona) organization can be selected that really wants this work.
31
32
33

34 ²¹ *Ibid.*

35 ²² *Ibid.* 9.

²³ *Ibid.*

- 1 c. The process would be as follows: Retailer sends coupons in batches to a mailbox. The
2 Coupon Processing organization takes the coupons for processing as required by a
3 contract. Data forms are created; probably in a spread sheet type of format (in Microsoft
4 Access or a similar RDBMS would be ideal) so that parameters are gathered in a manner
5 that leads to formats used for the DSM Report.
- 6 d. Upon completion of coupon data entry, a reimbursement review ensures accuracy of the
7 payment, then UNS Electric or a designated party, sends payment to the retailer. Coupon
8 processing should result in payment (electronically is usually preferred) within 3 days of
9 receipt of coupons.
- 10 e. Impacting coupon processing will be setting up SKU for associated retailers. Some maybe
11 automated depending on the retailer. When SKU have been pre-entered, data processing
12 is enhanced.
- 13 f. From Table 2 (revised) above, we see about 63,000 coupons a year or about 340 a day,
14 probably for 1 FTE person at a non-profit processing coupon, maybe at \$10.00 to 12.00 an
15 hour. This is about \$20,000 per year when contracted to a non-profit organization with
16 minimal, if any, overhead.
- 17 g. Summary. Coupon processing should not involve in-house costs, as most labor-intensive
18 work is done by a non-profit organization. Other than reimbursement verification before
19 payment, that should be a routine process, the coupon management not challenging.

20
21 **3.5 Program Management.**

22 **3.5.1 Field-Reps at Each Retail Site – to sell to retailers, and provide bi-weekly retailer visits.²⁴**

- 23 a. There in no need for continual site visits. Retailers understand customer demands have to
24 be met. Coupon-carrying customers, who cannot purchase a CFL, will have to be served
25 or they will take their business elsewhere.
- 26 b. Retailers such as Wal-Mart and Home Depot are not stupid, and do not need bi-weekly
27 visits to be trained on selling CFL lights. They have more important and urgent tasks to
28 perform; however, an initial setup visit can provide them pre-addressed and stamped
29 coupon envelopes, some sales posters or marketing materials, and other administrative
30 process tips. After that, phone contact should suffice.
- 31 c. Summary. Field Reps are not a part of the coupon program.

32 **3.6 Budget Issues in the Analysis.**

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²⁴ *Ibid.*

1 3.6.1 Administrative and Travel Costs – The UNSE Coupon Report allocates \$106,470 in
2 administrative expenses compared to \$9,500 in the Magruder CFL Comments.²⁵

- 3 a. First, there are no bi-weekly visits necessary to reduce \$12,870 in travel costs (Table 4) to
4 two trips a year (Tucson-Kingman/Havasu and Tucson-Nogales), to \$1,990.²⁶ Any on-site
5 training should be from the Training and Outreach (T&O) DSM Program's funds.
6 b. Second, the Report confirmed about 9-hrs a week for clerical support at \$9,500 annually
7 as coupon processing will be done by a non-profit group. Calls concerning this program,
8 like all other DSM programs, will be handled by the company's call center.
9 c. Summary. No change in the Magruder Administrative Cost Allocations other and changing
10 travel from \$500 to \$1,990.²⁷

11
12 3.6.2 Marketing Allocation – The UNSE Coupon Report allocates \$30,098 to Marketing compared to
13 \$5,500 in the Magruder CFL Comments.²⁸

- 14 a. First, Magruder eliminated the bi-weekly field rep visits to all retailers for training and
15 retailing. Wal-Mart and Home Depot are well trained in meeting stocking requirements and
16 understand the value of a CFL lamp.
17 b. Second, all subcontractor marketing expenses (\$19,125) were eliminated; however, the
18 UNSE Coupon Report suggested \$1,875 be added for a graphic designer to develop a
19 coupon. The Magruder CLF Comments contained a sample coupon that took me maybe
20 15 minutes to draft, and maybe another 15 minutes to finish including adding a SKU.
21 c. Third, the Magruder CLF Comments included \$5,500 for internal marketing, that is, to work
22 with T&O to ensure publicity announcements accurately reflect this program.
23 d. Summary. No change in the Magruder Marketing Cost allocations

24 3.6.3 Rebate Processing – The UNSE Coupon Report allocates \$10,500 for rebate processing,
25 compared to \$20,000 in the Magruder CFL Comments.²⁹

- 26 a. First, there are many organizations that do rebate coupon processing and most non-profits
27 would be most grateful for a steady \$20,000 per year.
28 b. Second, the reduction to \$10,500 is based on Table 2 number of CFL lamps in the
29 program that Table 2 Revised, herein, shows a much higher number of lights per year.
30

31
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33 ²⁵ *Ibid.* 9-10, Table 3, "Budget Comparison".

²⁶ *Ibid.* 10, Table 4, "Travel Cost Estimate"

²⁷ *Ibid.* Table 3, third column, labeled Magruder Proposed Coupon Program.

²⁸ *Ibid.* 9, Table 3.

²⁹ *Ibid.* Note, table 3 is labeled "Retailer processing and Product Inspections" but the equivalent in the
35 Magruder CFL Comments is labeled "Rebate Processing & Inspection", 3.

1 However, assuming the same as in the Magruder CFL Comments at 124,203 a year, then
2 \$20,000 is fully supported.

3 c. Summary. No change in the Magruder Rebate Processing allocations.

4
5 3.6.4 Financial Incentives – The UNSE Coupon Report allocates \$62,311 for financial incentives
6 compared to \$186,500 in the Magruder CFL Comments.³⁰

- 7 a. First, the reduction is based on Table 2 number of CFL lamps, greatly reduced from the
8 potential in the Revised Table 2 herein.
- 9 b. Second, there are two incentives, to the ratepayer and to the retailer. If we have 62,150
10 lamps purchased in a year, assuming 3 lamps per coupon, we would have approximately
11 20,720 coupons and with \$10,360 in retailer reimbursements at \$0.50 per coupon.
- 12 c. Third, this leave \$176,140 for customer rebates, assuming an average of \$2.10 per
13 coupon, then this supports 83,876 lamps, a few more than the 82,802 under a “buy down”
14 program.
- 15 d. Summary. The two programs are very close in terms of number of lamps per year.

16 3.7 Cost Benefit Analysis Comparisons.

17 3.7.1 Comparison of Incentives – using revised values herein versus the UNSE Coupon Report.³¹

- 18 a. First, by comparing, in a modified and combined Table 5 and Table 7, we see the following
19 for 2008:

20 Tables 5 and 7 (modified and combined)

	Buy Down Program	Coupon Program
Total Budget	\$225,000	\$225,000
Incentives	\$124,605	\$186,500
Administrative Costs	\$100,395	\$ 38,500
Incentives as % of Budget	55.4%	82.8%
Ratio of non-incentive to incentive cost	44.6%	17.2%

- 26 b. Summary. This shows that incentives are higher for the Coupon Program.

27
28 3.7.2 Comparison of Average Cost per Lamp – using revised values.³²

- 29 a. First, the report indicated average cost per lamp for the “buy down” program was \$2.71
30 (total budget/projected lamp sales = \$225,001/82,802 lamps), compared to \$2.67 (=
31 \$225,000/ 83,876 lamps) for the coupon program.

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34 ³⁰ *ibid.* 10.

35 ³¹ *ibid.* 11.

³² *ibid.*

- 1 b. The UNSE Coupon Report cited \$2.80 per lamp for the “buy down” and \$5.43 per lamp for
 2 the coupon program.³³
 3 c. Summary, cost per lamp is \$2.71 for the “buy down” program and \$2.67 for coupons, are
 4 about the same.

5
 6 **3.7.3 Comparison of Energy Savings – comparing the two programs.³⁴**

- 7 a. Using the ratios of CFL fixtures from Appendix A, we see no differences in this appendix.
 8 b. Using the ratio of lamps sold ($83,876/82,802 = 1.0103$, then by comparing, in a modified
 9 and combined Table 6 and Table 8, we see the following:

10 **Tables 6 and 8 (modified and combined)**

	Buy Down Program	Coupon Program
Projected Lamp Sales	82,802	83,876
Non-coincident peak (kW)	3,019	3,058
Coincident peak (kW)	302	306
Energy Savings (kWh)	2,578,235	2,604,791

- 11
 12
 13
 14 c. Summary, peak and non-peak coincident and energy savings were nearly the same for
 15 both programs.
 16

17 **3.8 Conclusions.**

18 **3.8.1 Savings Comparison per Lamp – comparing programs.**

- 19 a. See modified and combined Tables 6 and 8 above.
 20

21 **3.8.2 Incentives to the Customer – comparing programs.**

- 22 a. See modified and combined Tables 5 and 7 above.
 23

24 **3.8.3 Average Cost per Lamp – comparing programs.**

- 25 a. See 3.7.2 above.
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 35 ³³ *Ibid.*

³⁴ *Ibid.* 11 and 13-14, Appendix A

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Attachment B

**Copy of the type of Coupon
With Similar Features in the Alternative Coupon Program**