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Arizona Corporation Commission

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<p>7 IN THE MATTER OF THE APPLICATION OF) 8 UNS ELECTRIC, INC. FOR APPROVAL TO) 9 REVISE ITS DSM SURCHARGE BEGINNING) 10 JUNE 1, 2009) 11) 12)</p>	<p>DOCKET NO. E-04204A-06-0783 UNS ELECTRIC, INC.'S REPLY TO MARSHALL MAGRUDER'S RESPONSE AND EXCEPTIONS TO UNS ELECTRIC'S APPLICATION TO INCREASE ITS DSM SURCHARGE</p>
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13 UNS Electric, Inc. ("UNS Electric" or the "Company") hereby replies to "Response and
14 Exceptions to UNSE Application To Increase its DSM Surcharge" ("Response") filed by Mr.
15 Magruder ("Magruder") with the Arizona Corporation Commission ("Commission") on June 17,
16 2009.

18 **I. BACKGROUND**

19 On March 24, 2009, the Company filed its proposed increase to its Demand-Side
20 Management ("DSM") Surcharge in order to enhance and expand its existing DSM Programs.
21 This matter was scheduled to be heard at the Commission's May 27, 2009 Open Meeting.
22 Magruder requested and received an extension of time, and this matter was postponed until the
23 June 23, 2009 Open Meeting. Due to the continuance, the Company had to amend its filing
24 regarding the DSM Surcharge to reflect an effective date of July 1, 2009, instead of June 1, 2009.
25 The Company made such a filing on June 16, 2009. On June 17, 2009, Magruder filed this
26 Response that questions the costs and management of the Company's DSM programs.

27

1 **II. ARGUMENT**

2 In general, the Response appears to be based solely upon Magruder's theories on how
3 DSM programs should be operated and the costs associated with such programs, without any
4 supporting documentation or analysis. While the Company replies to each of the objections
5 raised in the Response, some of the answers are limited by the failure of Magruder to adequately
6 specify and support his allegations.

7
8 A. 2008 DSM Program Goals and Objectives

9 Magruder regrettably alleges that the Company's accomplishment of 2008 DSM
10 performance goals were, "at best dismal, and frankly terrible." The Company objects to this
11 comment, as it is without merit and any credible evaluation of UNS Electric's DSM programs is
12 premature. Unfortunately, Magruder also compares the recently approved DSM program
13 performance to mature programs in place and operating. There is always a "ramp-up" period for
14 new or expanded DSM programs. It is unreasonable to expect a full year performance from
15 programs approved as late as September 2008 without any regard for ramp-up or the current
16 economic downturn.

17
18 B. Costs

19 Magruder alleges that the costs associated with the Company's DSM programs are
20 "extraordinarily high." However, his benefit/cost results are skewed and erroneous as he
21 compares DSM spending to one year of energy savings. Instead, the proper benefit/cost analysis
22 compares the lifetime energy savings of the installed measures to the one year of spending. As
23 the Commission is aware, installed energy efficiency measures continue to save energy for their
24 expected lifetime. Further, Magruder's allegation that Table 4 in the UNS Electric DSM Semi-
25 annual report for July-December 2008 is incorrect is unfounded for similar reasons. The table is
26 correct as it again shows the environmental savings for the expected measure lifetimes, not just
27 for a year.

1 Magruder further alleges that the Company has filed data that contains “many
2 contradictions and inconsistencies.” As one example, he cites the Company’s figures in its DSM
3 Surcharge filing and the DSM Semi-annual report and claims they are inconsistent. Magruder is
4 wrong. The difference in the figures occurs due to timing. The difference between the DSM
5 Surcharge filing and the DSM Semi-annual report is due to extra expenses discovered between
6 the Surcharge filing on March 24th and the DSM report filing on April 1st of this year.

7 Magruder makes another allegation that administration costs “could be double counted”
8 and objects to how the costs are categorized. He argues that there “could” be double counting of
9 expenses, but does not allege any expenses were double counted. Nonetheless, the Company has
10 reviewed the costs and none of the expenses were double counted. Administrative and other
11 expenses are categorized as requested by Commission Staff. Furthermore, significant process
12 controls over DSM expense accounting are in place.

13 Finally, Magruder does not justify or document his figure of \$61,400.
14

15 C. Time-of-Use (“TOU”) and Zero-Net Homes.

16 Again, Magruder relies solely on the “authority” of his opinion and does not provide any
17 quantifiable analysis for his assertion that no one in Santa Cruz County “knows TOU is available
18 for residential customers” or that “the human touch” is a more effective means to communicate
19 than radio, TV or print media.

20 The Company has reevaluated its TOU program. It has determined that the current rate
21 structure, not education and outreach, is in need of some changes to enhance TOU participation
22 for all customer classes. Thus, the Company, in its pending rate case, has proposed some
23 modifications to the TOU Pricing Plans, which would provide customers with more options and
24 better savings.

25 Regarding Zero-Net Homes, Magruder asserts that “[T]he TRC and other ‘tests’ exist
26 only in a ‘draft’ Staff Report and have not been adopted by the Commission.” In fact, the
27 Commission has always required the Company, and its affiliates, to pass a Societal Cost test for

1 all DSM Programs. Additionally, Magruder's assertion of "significant input errors..." in the
2 Zero-Net Energy Homes analysis is without documentation and appears to be just his opinion.
3 Furthermore, the UNS Electric-WAPA line losses of 3.3% that Magruder refers to are only for
4 extra high voltage transmission lines and are not inclusive of distribution system line losses.

5
6 D. Proposed Recommendations

7 Magruder's numerous recommendations appear to be based upon his opinion on how
8 DSM programs should be operated, without any supporting documentation or analysis.
9 Additionally, he does not give any analysis or accounting of the costs associated with
10 implementing his recommendations, nor does the calculation of his proposed DSM Surcharge
11 appear to take into account any of those aforementioned costs.

12 Magruder continually argues, without proper documentation, that the Company's DSM
13 programs are too costly or inefficient. However, Magruder provides no documentation of the
14 benefit/cost analysis of his own proposals. In addition, Magruder argues for DSM goals,
15 studying additional DSM programs, establishing a Zero-Net Energy program and direct load
16 control ("DLC") program.

17 The Company already has annual DSM goals, even though they are not mandated by the
18 Commission for any Arizona utility at this time and is already pursuing study of additional DSM
19 programs and measures. These will be reported in the Semi-annual DSM reports. Additionally,
20 on March 30, 2009 UNS Electric filed a Zero-Net Energy Home study in compliance with
21 Decision No. 70522, Docket No. E-04204A-07-0365, and is awaiting Commission Staff analysis
22 of this filing. Finally, the Company will continue to study a DLC program, but the relatively
23 small amount of commercial and industrial customers is a concern. In addition, many of the
24 residential customers in the Company's service territory have evaporative cooling and not air
25 conditioning. This limits the available load reduction from residential customers. Further, the
26 Company's affiliate, Tucson Electric Power Company, is currently pursuing a possible pilot
27 residential DLC program to be in place before summer 2010. The Company would prefer to

1 await the results of this pilot study to better evaluate the potential for DLC in the UNS Electric
2 service territory.

3
4 **III. CONCLUSION**

5 Wherefore, the Company respectfully requests that the Commission approve its DSM
6 Surcharge as amended in its June 16, 2009 filing.

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8 RESPECTFULLY SUBMITTED this 22nd day of June 2009.

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