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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

6 Attorneys for Southwest Energy Efficiency Project

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 KRISTIN K. MAYES, CHAIRMAN  
9 GARY PIERCE  
10 PAUL NEWMAN  
11 SANDRA D. KENNEDY  
BOB STUMP

Arizona Corporation Commission

DOCKETED

JUL 1 2009

DOCKETED BY

12 IN THE MATTER OF THE APPLICATION  
13 OF ARIZONA PUBLIC SERVICE  
14 COMPANY FOR A HEARING TO  
15 DETERMINE THE FAIR VALUE OF THE  
16 UTILITY PROPERTY OF THE COMPANY  
17 FOR RATEMAKING PURPOSES, TO FIX A  
18 JUST AND REASONABLE RATE OF  
19 RETURN THEREON, TO APPROVE RATE  
20 SCHEDULES DESIGNED TO DEVELOP  
21 SUCH RETURN

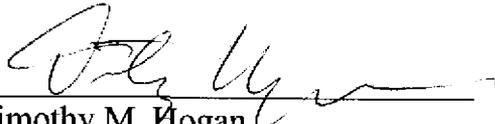
Docket No. E-01345A-08-0172

**NOTICE OF FILING TESTIMONY  
OF JEFF SCHLEGEL,  
SOUTHWEST ENERGY  
EFFICIENCY PROJECT IN  
SUPPORT OF SETTLEMENT  
AGREEMENT**

22 The Southwest Energy Efficiency Project ("SWEEP"), through its undersigned  
23 counsel, hereby provides notice that it has this day filed the testimony of Jeff Schlegel in  
24 support of the settlement agreement in connection with the above-captioned matter.  
25

1 DATED this 1<sup>st</sup> day of July, 2009.

2 ARIZONA CENTER FOR LAW IN  
3 THE PUBLIC INTEREST

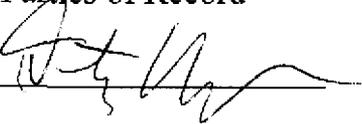
4 By   
5 Timothy M. Hogan  
6 202 E. McDowell Rd., Suite 153  
7 Phoenix, Arizona 85004  
8 Attorneys for Southwest Energy Efficiency  
Project

9 ORIGINAL and 13 COPIES of  
10 the foregoing filed this 1<sup>st</sup> day  
of July, 2009, with:

11 Docket Control  
12 Arizona Corporation Commission  
13 1200 W. Washington  
Phoenix, AZ 85007

14 COPIES of the foregoing  
15 electronically transmitted  
16 this 1<sup>st</sup> day of July, 2009 to:

17 All Parties of Record

18 

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

KRISTIN K. MAYES, Chairman  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE COMPANY  
FOR A HEARING TO DETERMINE THE  
FAIR VALUE OF THE UTILITY PROPERTY  
OF THE COMPANY FOR RATEMAKING  
PURPOSES, TO FIX A JUST AND  
REASONABLE RATE OF RETURN  
THEREON, TO APPROVE RATE  
SCHEDULES DESIGNED TO DEVELOP  
SUCH RETURN.

DOCKET NO. E-01345A-08-0172

**Testimony in Support of the APS Settlement Agreement**

Jeff Schlegel

Southwest Energy Efficiency Project (SWEEP)

July 1, 2009

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**Testimony of Jeff Schlegel, SWEEP  
APS Rate Case Settlement  
Docket No. E-01345A-08-0172**

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1 **Introduction**

2  
3 Q. Please state your name and business address.

4  
5 A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson,  
6 Arizona 85704-3224.

7  
8  
9 Q. For whom and in what capacity are you testifying?

10  
11 A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP). I am the  
12 Arizona Representative for SWEEP.

13  
14  
15 Q. Please describe Southwest Energy Efficiency Project.

16  
17 A. SWEEP is a public interest organization dedicated to advancing energy efficiency as a means  
18 of promoting both economic prosperity and environmental protection in the six states of  
19 Arizona, Colorado, New Mexico, Nevada, Utah, and Wyoming. SWEEP works on state  
20 energy legislation, analysis of energy efficiency opportunities and potential, expansion of  
21 state and utility energy efficiency programs as well as the design of these programs,  
22 building energy codes and appliance standards, and voluntary partnerships with the private  
23 sector to advance energy efficiency. SWEEP is collaborating with utilities, state agencies,  
24 environmental groups, universities, and energy specialists in the region. SWEEP is funded  
25 primarily by foundations, the U.S. Department of Energy, and the U.S. Environmental  
26 Protection Agency.

27  
28  
29 Q. What are your professional qualifications for presenting testimony in this docket?

30  
31 A. I am an independent consultant specializing in policy analysis, evaluation and research,  
32 *planning, and program design for energy efficiency and clean energy resources.* I consult  
33 for public groups and government agencies, and I have been working in the field for over 20  
34 years. In addition to my responsibilities with SWEEP, I am working or have worked  
35 extensively in many of the leading states that have effective energy efficiency programs,  
36 including California, Connecticut, Massachusetts, New Jersey, Vermont, and Wisconsin. In  
37 1997, I received the Outstanding Achievement Award from the International Energy  
38 Program Evaluation Conference. I have represented SWEEP before the Commission since  
39 2002.

40  
41

1 Q. Did you file direct testimony in this case?

2

3 A. Yes. I filed direct testimony on behalf of SWEEP in December 2008, addressing Demand  
4 Side Management (DSM) and energy efficiency issues.

5

6

7 Q. What is the purpose of your testimony?

8

9 A. In my testimony I summarize the benefits of increasing energy efficiency in the APS service  
10 territory and demonstrate that increasing energy efficiency is in the public interest. I  
11 address the DSM and energy efficiency portions of the Settlement Agreement, and I provide  
12 responses to Chairman Mayes' questions in her letter dated June 9, 2009 on these issues.

13

14

15 Q. Did you participate in the APS settlement discussions?

16

17 A. Yes. I participated in many of the settlement meetings and I worked with other parties to  
18 develop specific provisions of the Settlement Agreement, focusing primarily on the DSM  
19 and energy efficiency provisions.

20

21

22 **The Public Interest: Benefits of Increasing Energy Efficiency**

23

24 Q. What is the public interest in increasing energy efficiency for customers in the APS service  
25 territory?

26

27 A. Increasing energy efficiency will provide significant and cost-effective benefits for APS  
28 customers (residential consumers and businesses), the electric system, the economy, and  
29 the environment. Increasing energy efficiency will save money for consumers and  
30 businesses through lower electric bills, resulting in lower total costs for customers.  
31 Increasing energy efficiency will also reduce load growth, diversify energy resources,  
32 enhance the reliability of the electricity grid, reduce the amount of water used for power  
33 generation, reduce air pollution and carbon emissions, and create jobs and improve the  
34 economy. In addition, meeting a portion of load growth through increased energy  
35 efficiency can help to relieve system constraints in load pockets.

36

37 By reducing electricity demand, energy efficiency mitigates electricity and fuel price  
38 increases and reduces customer vulnerability and exposure to price volatility. Energy  
39 efficiency does not rely on any fuel and is not subject to shortages of supply or increased  
40 prices for natural gas or other fuels.

41

42 Energy efficiency is a reliable energy resource that costs less than other resources for  
43 meeting the energy needs of customers in the APS service territory. The total cost (sum of

1 program and customer costs) for energy efficiency savings is two to four cents per lifetime  
2 kWh saved, delivered to the customer. This is significantly less than the cost of  
3 conventional generation, transmission, and distribution. The utility program cost to APS  
4 ratepayers is even lower, about two cents per lifetime kWh saved for a comprehensive  
5 portfolio of programs designed to serve all customer sectors. As APS has been ramping up  
6 its programs in 2005-2008, the energy efficiency savings have been achieved at a cost to  
7 APS ratepayers of about one cent per kWh saved.

8  
9  
10 Q. What level of energy savings can be achieved from energy efficiency programs?

11  
12 A. Leading states are achieving annual energy savings equivalent to or exceeding 1% of retail  
13 electricity sales.<sup>1</sup> In addition, recently states have been setting higher goals, some around  
14 1.5 to 2.5% of retail electricity sales.<sup>2</sup> In Vermont, the statewide programs achieved energy  
15 savings equivalent to 2.5% of retail energy sales in 2008.<sup>3</sup>

16  
17 The Western Governors' Association Energy Efficiency Task Force stated: "We find that it is  
18 feasible to reduce electricity use 20% from projected levels in 2020, and do so cost  
19 effectively, through full deployment of best practice policies and programs."<sup>4</sup>

20  
21 SWEEP recommends achieving *at least* 20% to 25% energy savings by 2020 through  
22 increased energy efficiency. SWEEP also recommends achieving *at least* three quarters of  
23 the 20% to 25% total energy savings (or *at least* 15% to 20% savings by 2020) through utility  
24 sector energy efficiency programs, with the remaining 5% savings from other energy  
25 efficiency policies including building energy codes and appliance standards.

## 26 27 28 **DSM and Energy Efficiency Provisions in the Settlement Agreement**

29  
30 Q. Please summarize the DSM energy efficiency provisions in the Settlement Agreement.

31  
32 A. The DSM energy efficiency provisions are contained in Section XIV of the Agreement. These  
33 provisions set forth several initiatives aimed at increasing energy efficiency for all customer  
34 classes throughout the APS service territory. The Agreement: (1) sets energy efficiency  
35 goals for APS for the 2010 to 2012 period; (2) modifies the existing performance incentive  
36 to encourage APS to achieve or exceed the goals; (3) requires APS to file an annual Energy  
37 Efficiency Implementation Plan for the Commission's approval; (4) includes several specific  
38 new or expanded programs or program elements to help achieve the Agreement's energy

<sup>1</sup> ACEEE. State Scorecard Report. 2008.

<sup>2</sup> ACEEE. Laying the Foundation for Implementing a Federal Energy Efficiency Standard. March 2009.

<sup>3</sup> Efficiency Vermont (EVT) Preliminary Annual Report for 2008. March 2009.

<sup>4</sup> Western Governors' Association, Clean and Diversified Energy Initiative, *Energy Efficiency Task Force Report*, January 2006, p. v.

1 efficiency goals; (5) allows large commercial or large industrial customers to "self direct"  
2 DSM program funding, under specific parameters; and (6) modifies the Company's Demand  
3 Side Management Adjustment Clause (DSMAC) to better match expenditures and cost  
4 recovery similar to the clause the Commission recently adopted for Tucson Electric Power  
5 (TEP).  
6  
7

8 Q. Please describe the energy efficiency goals in the Agreement.  
9

10 A. The Settlement Agreement sets energy efficiency savings goals, defined as annual energy  
11 savings of 1.0% in 2010, 1.25% in 2011, and 1.5% in 2012, expressed as a percent of total  
12 energy resources needed to meet retail load. Cumulative annualized energy savings from  
13 the programs implemented in 2010-2012 would be approximately 3.75% (1.00% + 1.25% +  
14 1.50%) of total energy resources needed to meet retail load in 2012. If higher goals are  
15 adopted by the Commission for 2010, 2011 or 2012 in another docket, then those higher  
16 goals will supersede the goals listed above, as will any higher performance incentives. The  
17 modifications to the existing performance incentive are designed to encourage APS to meet  
18 or exceed the energy efficiency goals.  
19  
20

21 Q. What are the new or expanded programs or program elements to help achieve the  
22 Settlement Agreement's energy efficiency goals?  
23

24 A. The proposed DSM energy efficiency program enhancements and program elements  
25 include the following:

- 26 • Residential High Performance New Homes
- 27 • Residential Existing Home Performance (with a target to serve at least 1,000 homes  
28 by December 31, 2010)
- 29 • Low Income Weatherization Enhancements
- 30 • Non-Residential High Performance New Construction
- 31 • Non-Residential Customer Repayment Financing
- 32 • Schools Program Target (APS shall serve at least 100 schools by December 31, 2010)
- 33 • Large Customer Self-Direction  
34

35 Many of these new programs will be aimed at increasing energy efficiency measures for  
36 schools, municipalities, residential consumers, and low-income customers.  
37  
38

39 Q. Will more details on the 2010 DSM energy efficiency programs and the associated savings,  
40 benefits, and cost associated with the 2010 programs be available in this docket soon?  
41

42 A. Yes. APS is required to file the 2010 Energy Efficiency Implementation Plan by July 15, 2009,  
43 for the Commission's review and approval in this Docket. The Implementation Plan will

1 provide substantially more information on the 2010 programs, program elements, and  
2 program enhancements. SWEEP expects to supplement its Direct Testimony in this Docket  
3 by providing comments on the 2010 Implementation Plan, once that Plan is available for  
4 review. SWEEP will provide specific comments on the details of the program enhancements  
5 and program elements in its supplemental testimony.  
6  
7

8 Q. Are these DSM energy efficiency provisions in the public interest?  
9

10 A. Yes, absolutely. Taken together, these provisions are a *major* step forward for cost-  
11 effective energy efficiency in Arizona and are in the public interest. Achieving the energy  
12 efficiency goals would save money for APS customers and provide other benefits for  
13 customers, the electric system, the Arizona economy, and the environment. The specific  
14 benefits of the 2010 programs will be documented in the 2010 Energy Efficiency  
15 Implementation Plan to be filed in this Docket on July 15, 2009.  
16  
17

#### 18 **DSM Matters Raised by Chairman Mayes** 19

20 Q. Chairman Mayes asked how the energy efficiency goals incorporated in the Settlement  
21 Agreement compare to the Parties' recommendations in the energy efficiency workshops.  
22 How does the Settlement compare with SWEEP's recommended energy efficiency goals and  
23 Energy Efficiency Standard (EES)?  
24

25 A. In Docket Nos. E-00000J-08-0314 and G-00000C-08-0314, SWEEP proposed an Energy  
26 Efficiency Standard (EES) to achieve energy savings equal to *at least* 15% to 25% of total  
27 energy resources needed to meet retail load in 2020. SWEEP estimated that achieving the  
28 EES goals (15% to 20% by 2020) in the APS service territory is roughly equivalent to  
29 achieving annual energy savings of 1.5% to 2.0% of retail energy sales each year over the  
30 12-year period during 2009-2020, with allowance for some continued ramp up in the early  
31 years.  
32

33 SWEEP proposed energy efficiency targets of 1.25% of total energy resources to meet retail  
34 load for 2011 and 1.5% in 2012 in its comments in Docket Nos. E-00000J-08-0314 and G-  
35 00000C-08-0314. These recommendations are the same as in the Settlement Agreement  
36 for those years. SWEEP also proposed a target of 2.0% for 2013.  
37  
38

39 Q. Chairman Mayes asked for comments on whether the same energy efficiency standard that  
40 is being considered in the energy efficiency workshops could be adopted as part of this rate  
41 case. What is your view on this matter?  
42

1 A. The Settlement Agreement was specifically designed to require APS to either meet or  
2 exceed any other energy efficiency goals adopted by the Commission. The Agreement  
3 states that if higher efficiency goals are adopted by the Commission for 2010, 2011 or 2012  
4 in another docket, then those higher goals will supersede the goals listed in the Settlement  
5 Agreement, as will any higher performance incentives. On the other hand, if any lower  
6 goals are adopted by the Commission, APS would still be required to comply with the more  
7 stringent levels established in the Agreement. In this manner the Agreement sets forth the  
8 minimum goals for energy efficiency savings.  
9

10  
11  
12 **Demand Response**  
13

14 Q. What provisions does the Settlement Agreement include regarding demand response  
15 programs? Do you support these provisions?  
16

17 A. The Settlement Agreement includes an optional super peak time of use rate for residential  
18 customers and optional critical peak pricing programs for residential and nonresidential  
19 customers. The Agreement requires that demand response programs be offered and  
20 marketed jointly with energy efficiency programs to increase the chance that participants  
21 also save energy. Also, the Agreement requires APS to prepare a study on the impacts of  
22 demand response rates on the mix of power generation sources, and to determine whether  
23 more coal-fired generation is used as a result of these rates. SWEEP fully supports these  
24 provisions.  
25

26  
27 **Conclusion: Support for the Settlement Agreement**  
28

29 Q. What is your conclusion regarding the APS Settlement Agreement?  
30

31 A. I believe that the Settlement Agreement is in the public interest. In particular, the  
32 Agreement includes provisions to increase energy efficiency in the APS service territory,  
33 requiring cost-effective investments in Arizona's energy future to meet or exceed energy  
34 savings goals, save money for APS customers (residential consumers and businesses), and  
35 provide other benefits. I recommend that the Commission approve the Settlement  
36 Agreement.  
37

38  
39 Q. Does this conclude your testimony?  
40

41 A. Yes.  
42