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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

- KRISTIN K. MAYES - CHAIRMAN
- GARY PIERCE
- PAUL NEWMAN
- SANDRA D. KENNEDY
- BOB STUMP

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. E-01933A-07-0401  
 TUCSON ELECTRIC POWER COMPANY FOR )  
 APPROVAL OF ITS DEMAND-SIDE )  
 MANAGEMENT PROGRAM PORTFOLIO ) **REQUEST FOR ADDITIONAL**  
 PLAN. ) **FLEXIBILITY FOR FUNDING**  
 ) **APPROVED DSM PROGRAMS**

Tucson Electric Power Co. ("TEP" or "Company"), through undersigned counsel, hereby respectfully requests that the Arizona Corporation Commission ("Commission") issue an order granting the Company additional flexibility in the use of DSM funds approved through Decision Nos. 70376, 70383, 70403, 70459, 70457, 70458 and 70455. TEP requests the ability to shift a higher percentage of funding between approved DSM programs than the Commission has previously approved.

**I. INTRODUCTION.**

In connection with approval of TEP's DSM Program Portfolio, the Commission also approved flexibility in spending approved DSM program funds. Decision Nos. 70459 and 70457 (for the Efficient Commercial Building Design Program and the Small Business Program) both include a provision stating "Tucson Electric Power shall be allowed to shift up to 25 percent of funding between non-residential programs." Decision Nos. 70458 and 70455 (for the Residential New Construction Program and the Shade Tree Program respectively) includes a similar provision stating "Tucson Electric Power shall be allowed to shift up to 25 percent of funding between residential DSM programs but not out of the Low-Income Weatherization Program." While TEP appreciates the Commission's willingness to allow TEP the flexibility to shift 25 % between programs in each customer class, this lead of flexibility has fallen short of allowing TEP to maximize effective use of the approved DSM funding.

Commercial consumer demand for the Small Business Program and the Non-Residential Existing Facilities Program has outpaced even our greatest projection for participation and TEP has either already

1 fully subscribed incentives or will exhaust funding available for customer incentives by October 2009.  
2 Spending in the Commercial New Building Design Program is significantly less than anticipated due to  
3 the current status of the economy and the resulting impact on new commercial construction projects.  
4 However, even with the ability to shift up to 25% from the Commercial New Building Design Program  
5 funding, TEP will still not be able to cover the incentive requirements spent or reserved in the other two  
6 successful Commercial programs.

7 However, residential program interest has been very strong and TEP believes most residential  
8 programs will be subscribed at or slightly above the 2009 annual budget. However, participation in the  
9 New Home Construction Program is significantly less than anticipated due to the current status of the  
10 economy and the resulting impact on the new home construction market. Even after shifting up to 25% of  
11 the funding from this program to other residential programs that may oversubscribe in 2009, TEP will end  
12 the 2009 program year with a significant surplus of funding in the New Home Construction Program.

#### 13 **FLEXIBILITY REQUEST – OPTION 1**

14 In an effort to maintain participation in highly successful DSM programs TEP will continue to  
15 accept applications for energy efficiency upgrades even though programs may be currently  
16 oversubscribed for the current program year. In order to maximize participation in the highly successful  
17 Commercial and Residential programs that may oversubscribe in 2009, TEP respectfully requests  
18 Commission approval to increase the flexibility outlined as it relates to shifting funds between previously  
19 approved DSM programs. TEP respectfully requests Commission approval for this request for added  
20 flexibility.

21 *“1) allow TEP to shift up to 75% of approved funds from one Residential program to*  
22 *another Residential program or from one Commercial program to another Commercial*  
23 *program and allow TEP the option of overspending up to 25% of the total DSM budget to*  
24 *continue participation; and*

25 *2) allow TEP to shift up to 75% of approved funds from Residential to Commercial*  
26 *programs or from Commercial to Residential programs as deemed necessary based on*  
27



1 **III. CONTROL OF POTENTIAL RISK OF ADDED FLEXIBILITY.**

2 Because the following safety measures are required by Commission Staff, TEP believes there are  
3 no added regulatory risks from Commission approval of the spending flexibility requested in Option 1.

- 4 • Each DSM program already is required to meet the Societal Cost Test so shifting funds  
5 will have no bearing on the cost-effectiveness of each program.
- 6 • Decision No. 70458 prevents any reduction of funds from the Low-Income Weatherization  
7 Program.
- 8 • Option 1 assures that no more than 75% of any residential program funding can be shifted  
9 to commercial programs and no more than 75% of any commercial program funding can  
10 be shifted to residential programs.

11 **IV. SUPPORTING DOCUMENTATION.**

12 Table 2 sets forth the total budget and total anticipated expenditure through 12/31/2009 for each of  
13 TEP's approved DSM Programs.

14 **Table 1: Budget versus Anticipated 2009 EOY Spending**

15 Program	Original 2009 Budget	Anticipated 2009 EOY Spending
17 TEP Education & Outreach	\$496,000	\$496,000
18 TEP Low Income Weatherization	\$388,620	\$388,620
19 TEP Residential HVAC Retrofit (Efficient Home Cooling)	\$515,000	\$600,000
20 TEP Shade Trees	\$160,000	\$160,000
21 New Home Construction Program	\$3,644,072	\$1,200,000
22 TEP CFL Buydown	\$1,490,724	\$1,490,724
23 TEP Commercial Energy Solutions (Non-Residential Existing Facilities)	\$721,000	\$1,902,991
24 TEP Commercial Energy Solutions (New Building Design Program)	\$824,000	\$110,000
25 TEP Commercial Energy Solutions (Small Business Program)	\$1,339,000	\$1,485,476
26 <b>Total TEP DSM Programs (Recoverable through DSM Adjustor)</b>	<b>\$9,578,416</b>	<b>\$7,833,811</b>

TEP is confident that all residential programs except the New Home Construction Program are on-target for meeting the projected budget and the incentive budget for 2009. Two of the TEP Commercial Programs, however, are outpacing even our greatest expectations but the Commercial New Building Design is showing slow progress. TEP exceeded the incentive budget in the Small Business program by August 2009 and has oversubscribed and reserved incentives in the Non-Residential Existing Facilities program by over 300%. TEP does not wish to hinder or chill participation in this very successful program nor do it wish to notify customers that incentives are not available for work they currently have under contract. Therefore, TEP continues to accept applications for energy efficiency upgrades for the commercial customer segment. Table 2 sets forth the total budgets as well as incentive budgets, reserved incentives and the anticipated end-of-year spending for the four primary programs that TEP anticipates will be under budget or over budget by December 2009.

**Table 2: Current and projected incentive detail:**

Program	Original 2009 Budget	Incentive Budgets 2009	Incentives Paid and Reserved Jan – Aug 2009	Anticipated 2009 EOY Spending	Over or (Under) Total Budget
New Home Construction Program	\$3,644,072	\$1,661,081	\$100,000	\$1,200,000	\$2,444,072
TEP Commercial Energy Solutions (Non-Residential Existing Facilities)	\$721,000	\$393,666	\$1,352,515	\$1,979,846	(\$1,258,846)
TEP Commercial Energy Solutions (New Building Design Program)	\$824,000	\$468,032	\$10,000	\$110,000	\$714,000
TEP Commercial Energy Solutions (Small Business Program)	\$1,339,000	\$731,640	\$992,378	\$1,759,738	(\$420,738)

Note: TEP realizes that a percentage of the incentive reservations may not actually be paid in 2009 and will shift to program spending in 2010 however TEP estimates that at least 80% of the reserved funding will actually be paid out in 2009.

The presently approved flexibility for spending DSM dollars will not satisfy our anticipated funding requirements. With Commission approval for Option 1 or Option 2 above, TEP will be able to cover all spending requirements anticipated in 2009 (and potentially beyond with Option 1) by shifting

1 \$618,000 (75%) under budget dollars from the New Building Design Program and the balance of the need  
2 (\$1,061,584) from the New Home Construction Program.

3 In sum, although it is difficult to anticipate market conditions in any individual program, the added  
4 flexibility sought in this request should facilitate the total DSM Program funding requirements for just  
5 2009, or it may satisfy anticipated funding requirements for several years.

6 **V. CONCLUSION.**

7 Wherefore, TEP respectfully requests Commission approval of Option 1 or, alternatively, Option  
8 2. TEP further requests an effective date that would allow TEP to retroactively shift funding requirements  
9 to meet customer needs.

10 RESPECTFULLY SUBMITTED this 5<sup>th</sup> day of November 2009.

11 ROSHKA DEWULF & PATTEN, PLC

12  
13 By   
14 Michael W. Patten  
15 One Arizona Center  
16 400 East Van Buren Street, Suite 800  
17 Phoenix, Arizona 85004

18 and

19 Philip J. Dion, Esq.  
20 Tucson Electric Power Company  
21 One South Church Avenue, Suite 100  
22 Tucson, Arizona 85701

23 Attorneys for Tucson Electric Power Company  
24  
25  
26  
27

1 Original and 13 copies of the foregoing  
2 filed this 5<sup>th</sup> day of November 2009 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington Street  
6 Phoenix, Arizona 85007

7 Copy of the foregoing hand-delivered/mailed  
8 this 5<sup>th</sup> day of November 2009 to:

9 Jane Rodda, Esq.  
10 Administrative Law Judge  
11 Hearing Division  
12 Arizona Corporation Commission  
13 400 W. Congress  
14 Tucson, Arizona 85701

15 Janice Alward, Esq.  
16 Chief Counsel, Legal Division  
17 Arizona Corporation Commission  
18 1200 West Washington Street  
19 Phoenix, Arizona 85007

20 Steve Olea  
21 Director, Utilities Division  
22 Arizona Corporation Commission  
23 1200 West Washington Street  
24 Phoenix, Arizona 85007

25 C. Webb Crockett  
26 Patrick J. Black  
27 FENNEMORE CRAIG, PC  
3003 North Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913

Daniel Pozefsky, Esq.  
RUCO  
1110 West Washington, Suite 220  
Phoenix, Arizona 85007

Timothy M. Hogan  
Arizona Center for  
Law in the Public Interest  
202 E. McDowell Road, Suite 153  
Phoenix, Arizona 85004

Jeff Schlegel  
SWEEP Arizona Representative  
1167 W. Samalayuca Drive  
Tucson, Arizona 85704

1 David Berry  
2 Western Resource Advocates  
3 P. O. Box 1064  
4 Scottsdale, Arizona 85252

5 By Mary Appolits  
6  
7  
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