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Arizona Corporation Commission

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Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

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RE: Docket Number RE-00000C-09-0427

Dear Chairperson Mayes and Members of the Arizona Corporation Commission:

The Natural Resources Defense Council (NRDC) appreciates the opportunity to comment on Staff's Proposed Electric Energy Efficiency Rules filed by Commission Staff on December 4, 2009. NRDC applauds the Arizona Corporation Commission's commitment to energy efficiency and to the development of strong and effective rules for an Energy Efficiency Standard and encourage the Commission's expeditious adoption of an aggressive standard that significantly increases energy efficiency in Arizona.

Energy efficiency is the cheapest and cleanest energy resource we have available to us. Cost-effective investments in energy efficiency will save money for Arizona consumers and businesses, create jobs, increase comfort and workplace productivity, and reduce environmental impacts including water consumption and local, regional and global air pollution.

NRDC commends Staff and the Commission for work on the Proposed Rules and the recent improvements made to them that will increase their effectiveness, and we strongly support adoption of the proposed rules with the clarifications/modifications recommended below.

Energy Efficiency Standard

The energy efficiency standard levels should be as consistent as possible across utilities, while maintaining aggressive but achievable levels of savings. NRDC supports recommendations made by SWEEP and WRA with regard to necessary modifications to the rules in this area.

Performance-Based Incentive

NRDC strongly supports the inclusion of a performance-based incentive for superior energy efficiency program performance by the utilities. However, we agree with SWEEP and others that, while use of such a mechanism should be authorized in the Rule, the details of such a mechanism should be proposed and approved as part of the Implementation Plan. This will ensure that the incentive mechanism is appropriately tied to the program portfolio and what it is designed to achieve.

Disincentives

The public interest is served if utilities save every unit of energy that is less expensive than generating or purchasing the equivalent amount of energy. In fact, the Proposed Rules are a substantial movement toward such a world, establishing sustained savings standards at significant but achievable levels. Unfortunately, traditional rate regulation rewards utilities for selling more energy, and punishes utilities for selling less, thereby creating significant financial disincentives to substantial and sustained investments in cost-effective energy efficiency. This phenomenon, known as the “throughput incentive,” has been widely recognized throughout the country as a significant barrier to broad deployment of energy efficiency technologies.

To ensure the long-term effectiveness of the Proposed Rule and the standards it will establish, NRDC believes that it will be necessary to address this issue. However, we recognize that exploration of this issue and how best to address it at the Commission and among the Parties has only just begun, and we do not believe that adoption of the Proposed Rule should be delayed in order to address it. However, NRDC does support Arizona Public Service’s reasonable suggestion made in their November comments that the Rule acknowledge the disincentive problem and we recommend that the Commission include the following (or similar) statement in the Rules that it adopts.

It is the Commission’s intent to address the disincentives to utility investment in energy efficiency in its implementation of the Energy Efficiency Standard.

Public Participation

NRDC recommends that the Commission ensure a transparent process with opportunities for broad public and stakeholder participation, particularly during planning, evaluation and approval of programs and associated tariffs. Stakeholder input can provide important perspectives to strengthen the design and implementation of program portfolios and it is important to ensure a smooth running and effective program.

NRDC strongly urges Commission adoption of the proposed rules with the clarifications/modifications recommended above. Increasing cost-effective energy efficiency program requirements will help Arizona take advantage of one of the cheapest and cleanest ways to address the state’s growing energy demands. Thank you for the opportunity to comment and for consideration of our views.

Sincerely,

/s/

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