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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS DEMAND-SIDE MANAGEMENT PROGRAM PORTFOLIO PLAN.

DOCKET NO. E-01933A-07-0401

REQUEST FOR ADDITIONAL FUNDING FOR NON-RESIDENTIAL EXISTING FACILITIES PROGRAM

Tucson Electric Power Company ("TEP" or "Company"), through undersigned counsel, hereby respectfully requests the Arizona Corporation Commission ("Commission") to approve an increase in funding for TEP's Demand-Side Management Program ("DSM") Non-Residential Existing Facilities Program ("Program") for 2010 through 2012. Additionally, TEP respectfully requests the Commission to approve recovery of all costs associated with the Program through the DSM Surcharge that will be effective June 1, 2010. Attached as Exhibit 1 is TEP's "Request for Additional Funding" for the Program.

In Decision No. 70403 (July 3, 2008), the Commission approved TEP's Program. Since TEP launched this program on October 1, 2008, TEP used very little of the 2008 incentive budget before the end of 2008. TEP allowed the implementation contractor ("IC") to utilize the combined total incentive dollars for 2008 and 2009 of $775,866. By December 31, 2009, TEP actually paid $746,000 in customer incentives, which almost exhausted the combined 2008 and 2009 incentive budget of $775,866.

Considering the successful participation in 2009, TEP believes that it has significantly underestimated the commercial market for energy efficiency ("EE") upgrades on lighting, motors, HVAC and refrigeration. TEP does not wish to stop participation or reservations in a program that shows tremendous success.

Therefore, TEP is proposing an enhanced budget and Program benefit as outlined in Exhibit 1. Exhibit 1 also compares the proposed enhanced budget and benefit to the original budget and benefit approved in Decision No. 70403.

The incremental increase in the DSM Surcharge to recover the cost will be $0.014 for 2010, as shown below. The DSM Adjustor related to this program would be similar to each subsequent year through 2012.

Budget Increase Amount	Projected KWh Sales (2009)	DSM Adjustor (incremental)
$1,374,105	9,552,111,194	$0.014

With Commission approval for the increased funding allowance, TEP anticipates MWH savings to increase from 10,594 in 2010 to 29,633 in 2010. The weighted average Societal Cost Test ("SC") for the Program with increased funding will range from 2.08 to 3.74.

WHEREFORE, TEP respectfully requests Commission to approve 1) increased funding for the Program, and 2) recovery of all costs associated with the Program through the DSM Surcharge that will be effective June 1, 2010.

RESPECTFULLY SUBMITTED this 15th day of January 2010.

Tucson Electric Power Company

By ______________________

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Exhibit 1

Tucson Electric Power Company's

Request for Additional Funding

Non-Residential Existing Facilities Program for Years 2010-1012

Table of Contents

Tucson Electric Power Company
Non-Residential Existing Facilities Program

I. Introduction

In Decision No. 70403 (July 3, 2008), the Arizona Corporation Commission ("Commission") approved Tucson Electric Power Company's ("TEP" or "Company") Non-Residential Existing Facilities Program ("Program") for 2008 through 2012. Since the program was actually launched to customers on October 1, 2008, TEP used very little of the 2008 incentive budget before the end of 2008. The decision was made to carry forward the 2008 incentive dollars to 2009 and allow the contractor to promote the program and attempt to gain enough participation in 2009 to provide the two year combined estimated MWH savings. TEP allowed the implementation contractor ("IC") to utilize the combined total incentive dollars of $775,866 ($382,200 from 2008 and $393,666 from 2009).

Participation in this program during 2009 was overwhelming. By December 31, 2009, TEP paid out $746,000 in customer incentives, which almost exhausted the combined 2008 and 2009 incentive budget of $775,866. TEP certainly does not wish to stop participation or reservations in a program that shows tremendous success, so, based on the successful participation in 2009, it is apparent that TEP underestimated the commercial market for energy efficiency ("EE") upgrades on lighting, motors, HVAC and refrigeration. TEP is therefore proposing an enhanced budget for 2010 – 2012.

TEP respectfully requests Commission to approve 1) increased funding for the Program by a total of $4,478,158 for the three years from 2010-2012, and 2) recovery of all costs associated with the Program through the Demand-Side Management ("DSM") Surcharge that will be effective June 1, 2010. The incremental increase in the DSM Adjustor due to the funding increase in 2010 is shown in Table 1 below. Subsequent years would be similar since the budget is only increased by 3% in 2011 and then remains stable through 2012.

Table 1: Incremental Increase in Adjustor for 2010

Budget Increase Amount	Forecasted kWh Sales (2010)	DSM Adjustor (incremental)
$1,374,105	9,552,111,194	$0.014

II. Program Details

The Program promotes installation of EE lighting, motors, HVAC and refrigeration. TEP selected KEMA as the IC to deliver the Program in the TEP service territory. Incentives are paid directly to consumers when they install items from the prescriptive list of EE equipment.

The program was launched October 1, 2008 and, with so little time left during the year, only $6,183 was paid in customer incentives prior to December 31, 2008. The majority of the spending in 2008 ($95,898) was ramp-up costs in preparation for program delivery in 2009 The decision was made to carry forward the 2008 incentive dollars to 2009 and allow the contractor to promote the program and attempt to gain enough participation in 2009 to provide the two year combined estimated MWH savings.

III. Program Eligibility

The Program is available to all TEP commercial customers who qualify for TEP billing Rates 13, 14 and 40. These customers typically have an aggregate demand exceeding 200 kW.

IV. Rationale for Increased Funding

Not only did TEP spend 96% of the two year (2008 and 2009) incentive budget in a single year (2009), but TEP also received applications and reserved funding for an additional $1,010,000. Although some of these reservations may not meet program requirements, we estimate that at a minimum between 60-75% ($600,000-$750,000) will be paid in 2010 from reservations carried forward from 2009. This level of activity provides clear indication of future participation based on past experience. The original incentive budget for 2010 was $405,476, which will not cover the reservations already in process, let alone allow for additional customer applications in 2010. TEP does not wish to stop participation or reservations in a program that shows tremendous success. It is important that available funding be increased for 2010-2012 to maintain level of activity anticipated in this program. The only other option will be to cancel program participation based on lack of funding as soon as our reservations hit the original 2010 budget amount.

Additional funding is required to maximize the ability for TEP to meet the following Program objectives.

- Reduce peak demand and energy consumption for large commercial customers;
- Increase the purchase and installation of EE products; and
- Increase the awareness and knowledge of retailers and TEP customers of the benefits of EE products.

TEP believes customers will get the wrong signal about the importance of EE, if TEP promotes a program for only a few months each year then discontinues the promotion due to lack of funding. The request for additional funding shows TEP's commitment to achieving the maximum energy reduction possible by allowing a very successful program to continue with maximum efforts for success through out each year.

TEP wishes to increase funding availability to allow for unrestricted customer participation during the year. KEMA has provided a budget estimate they believe is reasonable to allow for full-scale operations consistently throughout the years 2010 - 2012.

V. Budget Comparison

The budget shown in Table 2, below, represents the original budget approved for this Program in Decision No. 70403. Table 3 shows the actual 2009 spending and the proposed budget request for 2010 – 2012.A breakdown of the proposed budget detail is shown in Table 6 in Section VII.

Table 2 - Original 2009-2012 Program Budget

Year	2009	2010	2011	2012
Total budget	$721,000	$742,630	$764,909	$787,856
Incentives	$393,666	$405,476	$417,640	$430,169
Admininstrative Costs	$327,334	$337,154	$347,269	$357,697
Incentives as % of budget	55%	55%	55%	55%

Table 3 - Proposed 2010-2012 Budget

Year	Actual 2009	2010	2011	2012
Total budget	$1,317,000	$2,116,735	$2,328,409	$2,328,409
Incentives	$746,000	$1,270,041	$1,397,045	$1,397,045
Admininstrative Costs	$571,000	$846,694	$931,364	$931,364
Incentives as % of budget	57%	60%	60%	60%

VI. Demand and Energy Savings Comparison

Information in Table 4, below, shows the original projection of energy savings for 2010-2012 for the Program approved in Decision No. 70403. Table 5, below, shows the new projection of energy savings for 2010-2012 for the Program based upon the requested additional funding.

Table 4 - 2010-2012 Sales, Demand and Energy Savings Projection with original budget

Year	2010	2011	2012
Non-Coincident peak (kW)	2,012	2,072	2,134
Coincident peak (kW)	1,767	1,820	1,874
Annual Energy Savings (kWh)	10,594,523	10,912,359	11,239,730

Table 5 – 2010 – 2012 Sales, Demand and Energy Savings Projections with additional funding

Year	2010	2011	2012
Non-Coincident peak (kW)	6,170	6,780	6,780
Coincident peak (kW)	5,394	5,927	5,927
Annual Energy Savings (kWh)	29,633,374	32,559,723	32,559,723

VII. Budget Allocation for 2010 - 2012

The annual budget for 2010 - 2012 will be allocated as shown in Table 6 below. TEP believes this budget will maximize the success of the Program.

Table 6 – 2010 Budget Allocation

2010 EOY Total Program Budget	**$2,116,735**	**(%)**	
Total Administrative Cost Allocation	**$105,639**	**5.0%**	
Internal Utility Managerial & Clerical	$84,472		80.0%
Travel & Direct Expenses	$12,677		12.0%
Overhead	$8,490		8.0%
Total Administrative Cost	*$105,639*		*100.0%*
Total Marketing Allocation	**$90,000**	**4.3%**	
Internal Markting Expense	$45,000		50.0%
Subcontracted Marketing Expense	$45,000		50.0%
Total Marketing Cost	*$90,000*		*100.0%*
Total Direct Implementation	**$1,864,041**	**88%**	
Financial Incentives	$1,270,041		68.1%
Implementation Contractor Labor	$550,000		29.5%
Hardware & Materials	$44,000		2.4%
Total Direct Installation Cost	*$1,864,041*		*100.0%*
Total EM&V Cost Allocation	**$57,055**	**2.7%**	
EM&V Activity	$45,000		78.9%
EM&V Overhead	$12,055		21.1%
Total EM&V Cost	*$57,055*		*100.0%*
Total Program Cost	*$2,116,735*		*100.0%*

VIII. Measurement, Evaluation and Research Plan

TEP selected Summit Blue Consulting to provide Measurement, Evaluation and Research ("MER") work for all approved DSM programs. Summit Blue will provide TEP with ongoing feedback on Program progress and enable management to adjust or correct the Program measures to be more effective, provide a higher level of service, and be more cost effective. Integrated data collection will provide a high quality data resource for evaluation activities.

X. Program Cost Effectiveness

The cost effectiveness of each measure and each Program, as a whole, was assessed using the Total Resource Cost Test ("TRC") test, the Societal Cost ("SC") test and the Ratepayer Impact Measure ("RIM") test. Measure analysis worksheets for each individual measure were provided to Commission Staff ("Staff") during the original program filing. Since each measure was determined to be cost effective at that time, TEP did not re-do the individual sheets. Rather than repeat the analysis on approximately 50 different measures, this funding request utilizes the 'weighted average' numbers from the original analysis for each measure category and updates the information with the new 2009 avoided cost values and the new budget amounts. In addition, TEP and Staff met a number of times in 2009 in attempts to standardize the methodology to determine cost effectiveness. The analysis for this request for funding has been updated with methodologies for avoided cost of energy, avoided cost of capacity, discount rates and net-to-gross ratio's approved by Staff. Program Cost Effectiveness and the SC Test for 2010 are shown below in Tables 8 and 9.

Table 8 Program Cost Effectiveness

Year	2010	2011	2012
Social PV Benefit -No Carbon($)	$7,792,976	$8,555,935	$8,555,935
Social PV Benefit -Low Carbon($)	$10,549,370	$12,033,331	$12,033,331
Social PV Benefit -Med Carbon($)	$12,012,934	$13,698,195	$13,698,195
Social PV Benefit -High Carbon($)	$13,975,445	$15,412,803	$15,412,803
PV Program Cost ($)	$3,740,447	$4,284,652	$4,284,652
NPV No Carbon ($)	$4,052,530	$4,271,283	$4,271,283

Table 9 Societal Cost Test Results for 2010

2010	SC No Carbon	SC Low Carbon	SC Med Carbon	SC High Carbon
Measure Weighted Societal Cost Test	2.08	2.82	3.21	3.74

The new methodology for determination of cost effectiveness is quite complex; the detailed files will be provided on CD for Staff's review. The cost effectiveness analysis requires estimation of:

- Net demand and energy savings attributable to the Program;
- Net incremental cost to the customer of purchasing qualifying products;
- TEP's Program administration costs;
- Present value of Program benefits including TEP's Avoided Costs ("AC") over the life of the measures; and
- TEP's lost revenues.

Although Commission Staff advised the Company to include a valuation of carbon dioxide ("CO2") in the benefit-cost calculations, Staff and TEP also understand it is up to the Commissioners to accept or deny this value. Until the Commission provides a formal acceptance regarding inclusion of CO2 in the calculation of the SC test, TEP will continue to provide results of the TRC test for Commission review.

In addition to estimating the savings from each measure, this analysis relies on a range of other assumptions and financial data. Table 10, below, summarizes data used in the cost effectiveness analysis and the data sources.

Table 10. Cost-Effectiveness Analysis Assumptions

Conservation Life (yrs):	Varies
Program Life (yrs):	3
IRP Discount Rate per Staff	7.0%
Social Discount Rate per Staff	7.0%
NTG Ratio per Staff	100%

IX. Environmental Benefits

Information in Table 11, below, outlines the significant impact in environmental benefits this Program will provide, if TEP is able to meet energy savings projections outlined in Table 5 in Section VI.

Table 11: Projected Environmental Benefits

Year	2010	2011	2012
Lifetime Energy Savings (Mwh)	315,240	346,209	346,209
Gallons Water	145,010,424	159,256,253	159,256,253
Tons CO2	301,812	331,462	331,462
Lbs. SOX	678,772	745,455	745,455
Lbs. NOX	818,986	899,443	899,443