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Arizona Corporation Commission
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IN THE MATTER OF THE NOTICE OF PROPOSED RULEMAKING REGARDING ENERGY EFFICIENCY	DOCKET NO. RE-00000C-09-0427 **ELECTRIC COOPERATIVES' INITIAL COMMENTS ON NOTICE OF PROPOSED RULEMAKING**

The following initial comments on the Arizona Corporation Commission's Proposed Rulemaking Regarding Energy Efficiency Rules (" EE Rules or Rules") as ordered in Decision No. 71436 (December 18, 2009) are being submitted by Duncan Valley Electric Cooperative, Inc. ("Duncan"), Graham County Electric Cooperative, Inc. ("Graham"), Mohave Electric Cooperative, Inc. ("Mohave"), Navopache Electric Cooperative, Inc. ("Navopache"), Trico Electric Cooperative, Inc. ("Trico") and Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur") (collectively the "Electric Cooperatives").[1]

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[1] The Cooperatives reserve the right, individually and collectively, to provide additional or different comments and positions on any of these issues in the future. The Cooperatives, individually and collectively, also reserve the right to modify the opinions expressed below as new information and input becomes available.

I. INTRODUCTION

The Cooperatives have only one goal and that is to provide the highest quality service to their members at the least cost because the customers of the cooperative are also its owners. Cooperatives seek the most reliable, least cost alternative for its members. The Cooperatives' boards of directors are themselves members elected by the members but they can not make Energy Efficiency ("EE") decisions for their members due to the voluntary nature of such programs. The Cooperatives do believe that they can increase the amount and scope of cost effective EE programs but also believe the required EE Standard percentages may not be realistic, measurable, or achievable.

An area of concern is fixed cost recovery for EE programs. While there may be some dispute over the magnitude, all parties have agreed that utilities will experience revenue erosion and not recover their fixed cost from adopting EE measures. To expect the utilities to agree to aggressive EE goals and time frames, without addressing one of the largest concerns of the utilities is inequitable to the utilities. The Cooperatives would urge the Commission to spend the time now to address the fixed cost recovery issues so that total costs of meeting the EE Standard can be quantified. If the Commission proceeds without addressing this critical issue, it will be basing its decision to proceed with an EE Standard and Rules without the benefit of having critical, cost-related information. There is not even proposed language included in the EE Rules stating that utilities may file for fixed-cost recovery as a part of their EE Implementation Plans which adds to the regulatory uncertainty that these costs will be recoverable. There have been several proposals made by utilities to address fixed cost recovery that the Cooperatives would support that would allow the utility to recover the fixed-costs associated with the kWh saved from EE programs, none of which have been included in Staff's proposed EE Rules.

The Cooperatives also believe that the EE targets should be established based on supported studies and analyses. The Cooperatives' further believe that EE Rules should be implemented in a manner and a time that will not conflict with State and Federal EE legislation. Finally, given that there are proposals for drafting State and Federal EE legislation, it is important for the Commission to provide guidance and clarification as to its authority to implement the EE Rules.

In attempt to limit controversy, the Cooperatives have mainly confined their comments to the R-14-2-2404 Energy Efficiency Standard Section of the Rules. The Cooperatives' comments on specific provisions of the Rules are as follows.

<u>R14-2-2404 Energy Efficiency Standard</u>

While the Cooperatives are committed to increasing the amount and scope of their EE programs, they believe it is not realistic to do so and to reduce their cumulative retail electric energy sales, measured in kWh, to a point 22% below the affected utility's retail electric energy sales for the year 2010 or reach the annual percentages set forth in this section, especially in the later years. As the case with the REST Rules, one set of EE goals is not appropriate for all utilities. Currently each cooperative is only meeting a fraction of the 1.25 percent annual savings in kWh stated in the EE Rules using EE and Demand Side Management ("DSM") programs. Several cooperatives have established DSM/EE programs while other cooperatives do not.

In addition, DSM/EE programs for customers are completely voluntary and can not be mandated except through the use of interruption and load curtailment techniques. EE programs are also offered by other parties who are not utilities thereby providing competition for a customer's available funds. Cooperatives are reliant on their members to adopt EE measures and should not strictly be held to meeting goals or penalized for not meeting EE goals. Customers have limits on the amount they can or want to conserve.

Also, many Cooperative service territories are mostly residential customers thereby making large kWh sales reductions more costly on a per kWh basis. Cooperatives will need their customers to adopt EE measures in order to decrease usage on a home by home basis.

Numerous factors can drastically affect a cooperative's annual sales in kWh which makes a goal based a percentage of sales unpredictable. For example, a cooperative's EE programs and measures may effectively be neutralized or exceeded by the addition of a large load such as a Wal-Mart, Sam's Club, Home Depot or 6% growth rate in its base customer load if annual kWh sales reduction is used as the goal. This can result even if a cooperative works with large new customers to incorporate the most cost effective EE measure. Likewise, for the irrigation rate class, a hot dry year or individual customer decisions to switch from natural gas to electric may have the same effect of increasing a cooperative's kWh sales from one year to the next and thereby canceling out any EE effort regardless of a cooperative's efforts to implement EE program and measures.

In conclusion, all these factors make it difficult for the Cooperatives to meet a mandated annual amount of savings in kWh from EE programs. In the alternative, the Cooperatives are proposing that each cooperative would file and have a Commission approved EE plan, a mechanism to timely recover all related EE program costs and margins associated with EE kWh savings.

The Cooperatives propose a revision in R14-2-241(C) that would eliminate the language that states "of at least 75% of the savings requirement specified in R14-2-2404". This revision will result in an approach similar to the Renewable Energy Standard and Tariff ("REST") Rules that have been effective for the Cooperatives by recognizing their differences and for accomplishing their approved REST goals. Under the Cooperatives' proposal, the Commission would approve an EE plan for each distribution cooperative that would identify appropriate energy efficiency goals and identify the estimated annual kWh savings from each program, establish a budget to meet these goals and set an EE adjustor amount to recover all related EE program costs and margins (fixed costs) associated with EE kWh savings.

Finally, a utility should be able to count any and all DSM/EE measures it has invested in since 2005 towards meeting the EE Standard. The amount of DSM/EE measures and resulting savings should not be artificially capped or limited or disallowed as proposed in the most recent version of the EE Rules. To do so, penalizes rather than rewarding utilities that have invested heavily in DSM/EE measures since 2005. It is an indisputable fact that those measures employed since 2005 have resulted in and will continue to result in kW and/or kWh savings and should be fully recognized. Additionally, not allowing the use of DSM to meet the EE Standard as stated in R14-2-2404 (B) and efficiency improvements to the delivery system as stated in R14-2-2404 (C) severely handicaps the Cooperatives in meeting the EE Standard. DSM measures and improvements to the delivery system are important tools that Cooperatives have to meet the EE Standard given the residential nature of their loads. Unlike IOU's, these measures equally benefit the Cooperatives and their member owners and should be allowed to meet the EE standard.

<u>R14-2- 2407. Commission Review and Approval of DSM Programs and DSM Measures</u>

Given the controversial nature of the assumptions that must be made to monetize environmental externalities and societal benefits and savings, it is unlikely that the Cooperatives will be able to provide any meaningful information in regard to the assumptions, calculations and amounts for environmental externalities or societal benefits and savings. In addition, the Cooperatives will incur significant additional costs in an attempt to quantify these societal benefits and savings. For these reasons and because this type of information will already be provided to the Commission as a part of Staff's proposed Resource Planning Rules, the Cooperatives believe this language should be eliminated in this Section and all other sections of the Rules.

R14-2-2411. Performance Incentives

Incentives may be an appropriate tool for IOUs, but the only "incentives" that work for cooperatives are those that increase the quality of service or decrease costs for our members. Cooperatives are not for profit entities that are not motivated by increased profits. Instead of a profit incentive, the Cooperatives would rather have the regulatory flexibility to collect necessary expenses in an efficient, cost-effective and timely fashion rather than an incentive structure designed to increase margins.

RESPECTFULLY SUBMITTED this 18th day of February, 2010.

By: ______________________

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Original and thirteen copies of the foregoing filed this 18^{th} day of February, 2010, with:

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