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Arizona Corporation Commission
DOCKETED

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

FEB 25 2010

DATE: February 25, 2010

DOCKETED BY 

RE: **SUPPLEMENTAL - ARIZONA PUBLIC SERVICE COMPANY- APPLICATION FOR APPROVAL OF ITS PROPOSED RESIDENTIAL NEW CONSTRUCTION PROGRAM ENERGY EFFICIENCY MEASURE - ENERGY STAR PLUS (DOCKET NO. E-01345A-09-0332)**

On June 29, 2009, Arizona Public Service Company ("APS" or "the Company") filed a proposed enhancement to its Residential New Construction ("RNC") program in Docket No. E-01345A-09-0332.¹ The proposed enhancement consists of a new tier (known as "Energy Star Plus") for its existing RNC program. The Energy Star Plus tier would provide larger incentives for builders who achieve a second, and higher, level of energy efficiency in their newly constructed residential homes.

Staff reviewed the application and, based on the Company's data, determined that the proposed Energy Star Plus component was cost-effective, with a benefit-cost ratio of 1.64. Staff recommended approval of the new Energy Star Plus component of the RNC program. (See Staff's Memorandum dated February 17, 2010.)

After completing the proposed order, Staff obtained new information from APS regarding the builder's incremental cost. Staff requested the information in order to compare the Energy Star Plus measure's incremental cost with that of a similar proposed program. APS' new information indicated that the incremental cost originally provided for this measure had been reduced by the federal tax credit. Staff believes an incremental cost based on such a reduction does not reflect the actual cost of an energy efficiency measure, and has the effect of making a measure appear more cost-effective than is actually the case. To ensure that the Energy Star Plus component was, in fact, cost-effective, Staff has recalculated the component's benefit-cost ratio based on the estimated full incremental cost for constructing Energy Star Plus homes, without subtracting the federal tax credit. Staff has determined that, although the benefit-cost ratio was lower than originally calculated, the proposed program component is still cost-effective. (The recalculated benefit-cost ratio for the Energy Star Plus component is 1.15 instead of the originally calculated 1.64.)

Although the Energy Star Plus program component remains cost-effective, even taking into account the corrected incremental cost, Staff believes the incremental cost issue should be

¹ The proposed Energy Star Plus tier was also discussed in the APS Implementation Plan, but Staff's memo and proposed order were primarily based on the separate filing, referenced above.

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addressed in an amendment that covers both the current application and the APS energy efficiency portfolio as a whole. In addition to skewing the benefit-cost ratio, subtracting tax credits from the incremental costs would impact net benefits, making them appear higher than they actually are. This is significant because the APS Performance Incentive is calculated as a percentage of net benefits (capped at a percentage of program costs). Anything that inflates net benefits could, potentially, also inflate the Performance Incentive. Therefore, Staff has filed, under separate cover, a proposed amendment for Commission consideration.



for

Steven M. Olea
Director
Utilities Division

SMO:JMK:lhv

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