

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

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2010 MAY 11 P 2:09

TO: THE COMMISSION

MAY 11 2010

FROM: Utilities Division

DOCKETED BY [Signature]

AZ CORP COMMISSION DOCKET CONTROL

DATE: May 11, 2010

RE: TUCSON ELECTRIC POWER COMPANY- APPLICATION FOR APPROVAL TO REVISE ITS DSM SURCHARGE BEGINNING JUNE 1, 2010 (DOCKET NOS. E-01933A-07-0402 AND E-01933A-05-0650)

On April 1, 2009, Tucson Electric Power Company ("TEP" or "the Company") filed an application for approval to reset its demand-side management ("DSM") adjustor rate, in accordance with Decision No. 70628. The TEP DSM adjustor mechanism allows the Company to recover the cost of its DSM programs; the adjustor is based on projected spending for the Company's DSM<sup>1</sup> programs. Funding for these programs is collected based on the adjustor rate approved by the Commission. Under- or over-collections are then "trued-up" at the next adjustor rate reset, meaning that the negative or positive balances are taken into account when the new adjustor rate is set.

Prior to the Commission's Decision No. 70628, the Company's DSM costs were recovered through base rates. Decision No. 70628 established the DSM adjustor to be applied to all kWh sales. Also, pursuant to Decision No. 70628, TEP was to file an application by April 1<sup>st</sup> of each year for Commission approval to reset the adjustor rate, with the rate to be reset on June 1<sup>st</sup> of each year. The Company is requesting an increase of \$0.000538 in the adjustor rate, from the current \$0.000831 per kWh to \$0.001369 per kWh. The increase is based on an under-collected balance from December 2009 and a projected 2010 budget for TEP's DSM portfolio.

The current TEP DSM portfolio includes the following Commission-approved programs: (1) the Education and Outreach Program; (2) the Low-Income Weatherization Program; (3) the Guarantee Home Program; (4) the Efficient Home Cooling Program; (5) the Shade Tree Program; (6) the Energy Star Lighting ("CFL") Program; (7) the Non-Residential Existing Facilities Program; (8) the Small Business Program; and (9) the Efficient Commercial Building Design Program.

The DSM adjustor rate proposed by the Company also includes amounts for four items not yet approved by the Commission: (i) 80 percent of the proposed increase<sup>2</sup> in the TEP Non-Residential Existing Facilities program budget, which was filed with the Commission on January 15, 2010, and which is based on the program's high participation rates since inception;

<sup>1</sup> DSM is the planning, implementation, and evaluation of programs to shift peak load to off-peak hours, to reduce peak demand ("kW") and/or to reduce energy consumption ("kWh" or "therms") in a cost-effective manner. DSM may include energy efficiency, load management, and demand response.

<sup>2</sup> From the \$742,630 originally proposed for 2010 to \$2,116,735.

(ii) 80 percent of the proposed increase<sup>3</sup> in the TEP Small Business program budget, which was also filed with the Commission on January 15, 2010, and which is also based on the program's high participation rate since inception; (iii) 75 percent of the budget for a Residential and Small Commercial Direct Load Control ("DLC") program, which was filed with the Commission on January 5, 2010; and (iv) 75 percent of the budget for a Commercial and Industrial ("C&I") DLC program, which was also filed with the Commission on January 5, 2010. The Residential and Small Commercial DLC program and C&I DLC program were submitted in one filing.

TEP's proposes to include recovery of its claimed incremental "Fixed Cost Recovery Deficiency" as part of its DSM adjustor rate. However, provisions for recovery of a "Fixed Cost Recovery Deficiency" are not included in TEP's DSM adjustor mechanism as established by Decision No. 70628. Therefore, claimed recovery of TEP's incremental "Fixed Cost Recovery Deficiency" should not be addressed through this application. TEP could seek recovery of that type of "deficiency" in its next rate case.

The DSM mechanism approved in Decision No. 70628 allows TEP to collect a performance incentive. The performance incentive allows TEP to receive a maximum of 10 percent of the net benefits, capped at 10 percent of total spending of the DSM portfolio during a reporting period of DSM spending, excluding the Low-Income Weatherization program, the Educational and Outreach program, the Residential and Small Commercial DLC program, and C&I DLC program. Based on the total spending for DSM programs in 2009 reported in TEP's semi-annual DSM Report, the performance incentive for 2009 was \$664,163.

The table below details TEP's 2009 actual expenditures and proposed costs for 2010.

Program	2010 Budget	2009 Expenditures
Education and Outreach	\$510,880	\$528,993
<b>Residential Programs</b>		
Low-Income Weatherization	\$396,392	\$216,759
Guarantee Home	\$1,465,530	\$1,179,848
Efficient Home Cooling	\$530,450	\$772,195
Shade Tree Program	\$160,000	\$161,725
Energy Star Lighting (CFL)	\$1,535,444	\$1,147,121
<b>Non-Residential Programs</b>		
Non-Residential Existing Facilities	\$1,693,388	\$1,084,401
Small Business	\$1,693,388	\$1,455,980
Efficient Commercial Building Design	\$212,180	\$153,507
<b>Demand Response Programs<sup>4</sup></b>		
Residential & Small Commercial DLC	\$818,213	\$0
C&I DLC	\$606,525	\$0
<b>Programs Subtotal</b>	<b>\$9,622,390</b>	<b>\$6,700,529</b>

<sup>3</sup> From the \$1,379,170 originally proposed for 2010 to \$2,116,735.

<sup>4</sup> TEP removed the Demand Response programs from its DSM portfolio originally filed on July 2, 2007. Request for approval of TEP's Demand Response programs was not re-filed until January 5, 2010.

Measurement, Evaluation, & Research	\$0 <sup>5</sup>	\$458,417
Customer Care and Billing ("CC&B") Database Development	\$260,000	\$208,440
TEP Baseline Study	\$236,415	\$19,997
Performance Incentive	\$664,163	\$0
Fixed Cost Recovery Deficiency	\$1,111,200	\$0
Amount under-collected for 2009	\$791,653	n/a
<b>Total</b>	<b>\$12,685,821</b>	<b>\$7,387,383</b>

Staff recommends that the DSM adjustor rate be reset to include the amount under-collected for 2009 costs, the performance incentive, and TEP's proposed 2010 budget for programs. Staff recommends that 80 percent of the proposed increase for the Non-Residential Existing Facilities Program and Small Business Program, projected for these programs for 2010, be included in the DSM adjustor. The Company has indicated that these projections are reasonable, given the level of program activity and participation. Staff's review of TEP's semi-annual DSM progress report for July-December 2009, filed February 26, 2010, also indicates that the level of funding proposed by the Company for its existing programs is reasonable.

Staff recommends that the \$1,111,200 proposed for the Fixed Cost Recovery Deficiency not be included in the DSM adjustor rate for 2010. Subtracting \$1,111,200 for the Fixed Cost Recovery Deficiency from the proposed \$12,685,821 total results in a total of \$11,574,621 to be recovered through a DSM adjustor rate of \$0.001249 per kWh (an increase of \$0.000418 per kWh). TEP's low income customers do not pay the DSM adjustor rate.

Typical monthly bill impacts for Residential customers are listed below:

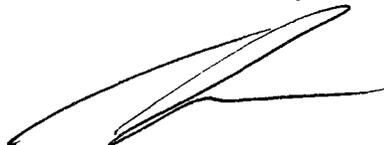
Average monthly usage by Season	kWh	Current total (\$0.000831)	Monthly increase from Company proposal (\$0.000538)	Monthly increase from Staff proposal (\$0.000418)	Monthly total based on Company proposal (\$0.001369)	Monthly total based on Staff proposal (\$0.001249)
Summer	1115	\$0.93	\$0.60	\$0.47	\$1.53	\$1.40
Winter	661	\$0.55	\$0.36	\$0.28	\$0.91	\$0.83

Staff Recommendations

- Staff recommends that the TEP DSM adjustor rate be reset at a level of \$0.001249 per kWh, beginning June 1, 2010.
- Staff recommends that recovery for the Fixed Cost Recovery Deficiency not be included in the proposed DSM adjustor rate.

<sup>5</sup> Zero because measurement, evaluation, and research is already included in the individual program budgets.

- Staff recommends that TEP file, as a compliance item in this docket, an updated Rider R-2 Demand Side Management Surcharge tariff consistent with the Decision in this case within 15 days of the effective date of the Decision.



Steven M. Olea  
Director  
Utilities Division

SMO:CLA:lhmvJFW

ORIGINATOR: Candrea Allen

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES  
Chairman  
GARY PIERCE  
Commissioner  
PAUL NEWMAN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
BOB STUMP  
Commissioner

IN THE MATTER OF THE APPLICATION )  
OF TUCSON ELECTRIC POWER )  
COMPANY FOR APPROVAL TO REVISE )  
ITS DSM SURCHARGE BEGINNING )  
JUNE 1, 2010 )

DOCKET NOS. E-01933A-07-0402  
E-01933A-05-0650  
  
DECISION NO. \_\_\_\_\_  
  
ORDER

Open Meeting  
May 26 and 27, 2010  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On April 1, 2009, TEP filed an application for approval to reset its demand-side management ("DSM") adjustor rate, in accordance with Decision No. 70628. The TEP DSM adjustor mechanism allows the Company to recover the cost of its DSM programs; the adjustor is based on projected spending for the Company's DSM<sup>1</sup> programs. Funding for these programs is collected based on the adjustor rate approved by the Commission. Under- or over-collections are then "trued-up" at the next adjustor rate reset, meaning that the negative or positive balances are taken into account when the new adjustor rate is set.

<sup>1</sup> DSM is the planning, implementation, and evaluation of programs to shift peak load to off-peak hours, to reduce peak demand ("kW") and/or to reduce energy consumption ("kWh" or "therms") in a cost-effective manner. DSM may include energy efficiency, load management, and demand response.

1           3.     Prior to the Commission's Decision No. 70628, the Company's DSM costs were  
2 recovered through base rates. Decision No. 70628 established the DSM adjustor to be applied to  
3 all kWh sales. Also, pursuant to Decision No. 70628, TEP was to file an application by April 1st  
4 of each year for Commission approval to reset the adjustor rate, with the new rate to take effect on  
5 June 1st of each year. The Company is requesting an increase of \$0.000538 in the adjustor rate,  
6 from the current \$0.000831 per kWh to \$0.001369 per kWh. The increase is based on an under-  
7 collected balance from December 2009 and a projected 2010 budget for TEP's DSM portfolio.

8           4.     The current TEP DSM portfolio includes the following Commission-approved  
9 programs: (1) the Education and Outreach Program; (2) the Low-Income Weatherization Program;  
10 (3) the Guarantee Home Program; (4) the Efficient Home Cooling Program; (5) the Shade Tree  
11 Program; (6) the Energy Star Lighting ("CFL") Program; (7) the Non-Residential Existing  
12 Facilities Program; (8) the Small Business Program; and (9) the Efficient Commercial Building  
13 Design Program.

14           5.     The DSM adjustor rate proposed by the Company also includes amounts for four  
15 items not yet approved by the Commission: (i) 80 percent of the proposed increase<sup>2</sup> in the TEP  
16 Non-Residential Existing Facilities program budget, which was filed with the Commission on  
17 January 15, 2010, and which is based on the program's high participation rates since inception; (ii)  
18 80 percent of the proposed increase<sup>3</sup> in the TEP Small Business program budget, which was also  
19 filed with the Commission on January 15, 2010, and which is also based on the program's high  
20 participation rate since inception; (iii) 75 percent of the budget for a Residential and Small  
21 Commercial Direct Load Control ("DLC") program which was filed with the Commission on  
22 January 5, 2010; and (iv) 75 percent of the budget for a Commercial and Industrial ("C&I") DLC  
23 program which was also filed with the Commission on January 5, 2010. The Residential and  
24 Small Commercial DLC program and C&I DLC program were submitted in one filing.

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28 <sup>2</sup> From the \$742,630 originally proposed for 2010 to \$2,116,735.

<sup>3</sup> From the \$1,379,170 originally proposed for 2010 to \$2,116,735.

6. TEP's proposed DSM adjustor rate includes recovery of its incremental Fixed Cost Recovery Deficiency. However, recovery of Fixed Cost Recovery Deficiency was not included in the DSM adjustor mechanism as established by Decision No. 70628. Therefore, recovery of TEP's claimed incremental "Fixed Cost Recovery Deficiency" should not be addressed through this application. TEP could seek recovery of that type of "deficiency" in its next rate case.

7. The DSM mechanism approved in Decision No. 70628 allows TEP to collect a performance incentive. The performance incentive allows TEP to receive a maximum of 10 percent of the net benefits, capped 10 percent of total spending of the DSM portfolio during a reporting period of DSM spending, excluding the Low-Income Weatherization program, the Educational and Outreach program, the Residential and Small Commercial DLC program, and C&I DLC program. Based on the total spending for DSM programs in 2009 reported in TEP's semi-annual DSM Report, the performance incentive for 2009 was \$664,163.

8. The table below details TEP's 2009 actual expenditures and proposed costs for 2010.

Program	2010 Budget	2009 Expenditures
Education and Outreach	\$510,880	\$528,993
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Amount under-collected for 2009	\$791,653	n/a
<b>Total</b>	<b>\$12,685,821</b>	<b>\$7,387,383</b>

9. Staff has recommended that the DSM adjustor rate be reset to include the under-collected amount for 2009 costs, the performance incentive and TEP's proposed 2010 budget for the programs. Staff has recommended 80 percent of the proposed increase for the Non-Residential Existing Facilities Program and Small Business Program, projected for these programs for 2010, be included in the DSM adjustor. The Company has indicated that these projections are reasonable, given the level of program activity and participation. Staff's review of TEP's semi-annual DSM progress report for July-December 2009, filed February 26, 2010, also indicates that the level of funding proposed by the Company for its existing programs is reasonable.

10. Staff has further recommended that the \$1,111,200 proposed for the Fixed Cost Recovery Deficiency not be included in the DSM adjustor rate for 2010. Subtracting \$1,111,200 for the Fixed Cost Recovery Deficiency from the proposed \$12,685,821 total results in a total of \$11,574,621 to be recovered at a DSM adjustor rate of \$0.001249 per kWh (an increase of \$0.000418 per kWh). TEP's low income customers do not pay the DSM adjustor rate.

11. Typical monthly bill impacts for Residential customers are listed below:

Average monthly usage by Season	kWh	Current Total (\$0.000831)	Monthly increase from Company proposal (\$0.000538)	Monthly increase from Staff proposal (\$0.000418)	Monthly total based on Company proposal (\$0.001369)	Monthly total based on Staff proposal (\$0.001249)
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12. Staff Recommendations:
- Staff has recommended that the TEP DSM adjustor rate be set at a level of \$0.001249 per kWh, beginning June 1, 2010.
  - Staff has recommended that recovery for the Fixed Cost Recovery Deficiency not be included in the proposed DSM adjustor rate.
  - Staff has recommended that TEP file, as a compliance item in this docket, an updated Rider R-2 Demand Side Management Surcharge tariff consistent with the Decision in this case within 15 days of the effective date of the Decision.

CONCLUSIONS OF LAW

1. Tucson Electric Power Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.
2. The Commission has jurisdiction over Tucson Electric Power Company and over the subject matter of the Application.
3. The Commission, having reviewed the application and Staff's Memorandum dated May 11, 2010, concludes that it is in the public interest to approve the Tucson Electric Power Company Demand-Side Management Surcharge beginning June 1, 2010, subject to Staff's recommendations and modifications, and as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the Tucson Electric Power Company DSM adjustor rate be, and hereby is, reset at a level of \$0.001249 beginning June 1, 2010.

1 IT IS FURTHER ORDERED that Tucson Electric Power Company file, as a compliance  
2 item in this docket, an updated Rider R-2 Demand Side Management Surcharge tariff consistent  
3 with the Decision in this case within 15 days of the effective date of the Decision.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

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IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
Executive Director of the Arizona Corporation Commission,  
have hereunto, set my hand and caused the official seal of  
this Commission to be affixed at the Capitol, in the City of  
Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2010.

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\_\_\_\_\_  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

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DISSENT: \_\_\_\_\_

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DISSENT: \_\_\_\_\_

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SMO:CLA:lhm\JFW

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1 SERVICE LIST FOR: Tucson Electric Power Company  
 2 DOCKET NOS. E-01933A-07-0402 and E-01933A-05-0650

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