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MEMORANDUM

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TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

2010 JUN 18 P 2:20

AZ CORP COMMISSION
DOCKET CONTROL

DATE: June 18, 2010

RE: STAFF'S RESPONSE TO COMMENTS IN THE MATTER OF PROPOSED
RULEMAKING ON ELECTRIC ENERGY EFFICIENCY (DOCKET NO. RE-
00000C-09-0427)

On April 16, 2010, pursuant to Decision No. 71436, the Utilities Division filed with the Commission's Docket Control, a document including (1) a summary of written comments filed by interested persons after February 23, 2010, and oral comments received at the oral proceeding held on March 5, 2010; (2) the Utilities Division's responses to those comments; and (3) a proposed revision to the prior Economic, Small Business, and Consumer Impact Statement.

Three interested parties (Arizona Public Service, the Southwest Energy Efficiency Project, and Western Resource Advocates) filed comments in response to the April 16, 2010 Staff Report. To address the concerns of those interested parties and clarify the proposed rules, Staff has prepared the attached Staff Report which contains proposed modifications to some parts of what was contained in the April 16, 2010 Staff Report.

SMO:BEK:red

Originator: Barbara Keene

Arizona Corporation Commission

DOCKETED

JUN 18 2010

DOCKETED BY	
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Docket No. RE-00000C-09-0427

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

PROPOSED RULEMAKING ON ELECTRIC ENERGY EFFICIENCY

DOCKET NO. RE-00000C-09-0427

STAFF RESPONSE TO COMMENTS

JUNE 18, 2010

STAFF ACKNOWLEDGMENT

The Staff Response to Comments for Proposed Rulemaking On Electric Energy Efficiency, Docket No. RE-00000C-09-0427, was the responsibility of the Staff member listed below.

Barbara Keene

Barbara Keene
Public Utilities Analyst Manager

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INTRODUCTION

The Arizona Corporation Commission ("Commission") issued Decision No. 71436 on December 18, 2009. In that Decision, the Commission ordered that a Notice of Proposed Rulemaking including proposed Electric Energy Efficiency rules be filed with the Office of the Secretary of State for publication. The Notice of Proposed Rulemaking was published in the *Arizona Administrative Register* on January 15, 2010.

Pursuant to Decision No. 71436, Staff filed the Economic, Small Business, and Consumer Impact Statement that addressed the economic impacts of the proposed Electric Energy Efficiency rules on January 22, 2010.

Decision No. 71436 requested that interested parties provide initial comments concerning the Notice of Proposed Rulemaking by filing written comments with the Commission's Docket Control by February 16, 2010, and comments in response to other interested parties' comments by February 23, 2010. On March 2, 2010, Staff filed a summary of the written comments and the Utilities Division's responses to those comments.

Decision No. 71436 also provided for an opportunity for interested parties to provide oral comments at a proceeding to be held on March 5, 2010. On April 16, 2010, Staff filed with the Commission's Docket Control, a document including (1) a summary of written comments filed by interested persons after February 23, 2010, and oral comments received at the oral proceeding; (2) the Utilities Division's responses to those comments; and (3) a proposed revision to the prior Economic, Small Business, and Consumer Impact Statement.

Three interested parties (Arizona Public Service, the Southwest Energy Efficiency Project, and Western Resource Advocates) filed comments in response to the April 16, 2010 Staff Report. To address the concerns of those interested parties and clarify the proposed rules, Staff proposes the following modifications to some parts of what was contained in the April 16, 2010 Staff Report. These modifications are intended to clarify the proposed rules without making any substantive changes to the rules.

STAFF'S PROPOSED MODIFICATIONS

R14-2-2404(A)

For clarity, Staff recommends that the language "Except as provided in R14-2-2418, in order to ensure reliable electric service at reasonable ratepayer rates and costs, by December 31, 2020, an affected utility shall, through cost-effective DSM energy efficiency programs, achieve cumulative annual energy savings, measured in kWh, equivalent to at least 22% of the affected utility's retail electric energy sales for the prior calendar year (2019)." be revised to read as Except as provided in R14-2-2418, in order to ensure reliable electric service at reasonable ratepayer rates and costs, by December 31, 2020, an affected utility shall, through cost-effective DSM energy efficiency programs, achieve cumulative annual energy savings, measured in kWh,

equivalent to at least 22% of the affected utility's retail electric energy sales for calendar year 2019.

R14-2-2404(B)

Staff recommends that the language "An affected utility shall meet at least the following energy efficiency standard by the end of each year:" be revised to read as "An affected utility shall, by the end of each calendar year, meet at least the cumulative annual energy efficiency standard listed in Table 1 for that calendar year. An illustrative example of how the required energy savings would be calculated is shown in Table 2. An illustrative example of how the standard could be met in 2020 is shown in Table 4."

Staff recommends that the only change to Table 1 would be to add the Table 1 title and to replace "in" with "by the End of" in the column heading. Table 2 would be added as an illustrative example of how the required energy savings would be calculated. The revised Table 1 and the added Table 2 would be as shown below.

Table 1. Energy Efficiency Standard

<u>CALENDAR YEAR</u>	<u>ENERGY EFFICIENCY STANDARD</u> <u>(Cumulative Annual Energy Savings</u> <u>by the End of Each Calendar Year</u> <u>as a Percent of the</u> <u>Retail Energy Sales in the Prior Calendar Year)</u>
<u>2011</u>	<u>1.25%</u>
<u>2012</u>	<u>3.00%</u>
<u>2013</u>	<u>5.00%</u>
<u>2014</u>	<u>7.25%</u>
<u>2015</u>	<u>9.50%</u>
<u>2016</u>	<u>12.00%</u>
<u>2017</u>	<u>14.50%</u>
<u>2018</u>	<u>17.00%</u>
<u>2019</u>	<u>19.50%</u>
<u>2020</u>	<u>22.00%</u>

Table 2. Illustrative Example of Calculating Required Energy Savings

<u>CALENDAR YEAR</u>	<u>A RETAIL SALES (kWh)</u>	<u>B ENERGY EFFICIENCY STANDARD</u>	<u>C REQUIRED CUMULATIVE ENERGY SAVINGS (B*prior year A)</u>
<u>2010</u>	<u>100,000,000</u>		<u>0</u>
<u>2011</u>	<u>100,750,000</u>	<u>1.25%</u>	<u>1,250,000</u>
<u>2012</u>	<u>101,017,500</u>	<u>3.00%</u>	<u>3,022,500</u>
<u>2013</u>	<u>101,069,925</u>	<u>5.00%</u>	<u>5,050,875</u>
<u>2014</u>	<u>100,915,646</u>	<u>7.25%</u>	<u>7,327,570</u>
<u>2015</u>	<u>100,821,094</u>	<u>9.50%</u>	<u>9,586,986</u>
<u>2016</u>	<u>100,517,711</u>	<u>12.00%</u>	<u>12,098,531</u>
<u>2017</u>	<u>100,293,499</u>	<u>14.50%</u>	<u>14,575,068</u>
<u>2018</u>	<u>100,116,043</u>	<u>17.00%</u>	<u>17,049,895</u>
<u>2019</u>	<u>99,986,628</u>	<u>19.50%</u>	<u>19,522,628</u>
<u>2020</u>	<u>99,902,384</u>	<u>22.00%</u>	<u>21,997,058</u>

R14-2-2404(D)

Staff recommends that the language "An affected utility's energy savings resulting from DSM energy efficiency programs implemented before the effective date of these rules, but after 2004, may be credited toward meeting the energy efficiency standard set forth in subsection (B). The total energy savings credit for these pre-rules programs shall not exceed 4% of the affected utility's retail energy sales in calendar year 2005. A portion of the total energy savings credit for these pre-rules programs may be applied each year, from 2016 through 2020, as follows:" be modified to include a reference to Table 3.

The revised language would be as follows: "An affected utility's energy savings resulting from DSM energy efficiency programs implemented before the effective date of these rules, but after 2004, may be credited toward meeting the energy efficiency standard set forth in subsection (B). The total energy savings credit for these pre-rules programs shall not exceed 4% of the affected utility's retail energy sales in calendar year 2005. A portion of the total energy savings credit for these pre-rules programs may be applied each year, from 2016 through 2020, as listed in Table 3."

Staff recommends that the table be labeled as Table 3 and the columns in the table be reversed for clarity. Also, the word "Pre-Standard" in the column headings would be replaced with "Pre-Rules" to be consistent with the narrative. Table 3 would be as shown below.

Table 3. Credit for Pre-Rules Energy Savings

<p><u>CALENDAR</u> <u>YEAR</u></p>	<p><u>CREDIT FOR THE</u> <u>PRE-RULES ENERGY</u> <u>SAVINGS APPLIED IN</u> <u>EACH YEAR</u> (Percentage of the Total Eligible Pre-Rules Cumulative Annual Energy Savings That Shall Be Applied in the Year)</p>	<p><u>CUMULATIVE APPLICATION</u> <u>OF THE CREDIT FOR THE</u> <u>PRE-RULES ENERGY SAVINGS</u> <u>IN 2016-2020</u> (Percentage of the Total Eligible Pre- Rules Cumulative Annual Energy Savings That Are Credited by the End of Each Year)</p>
<u>2016</u>	<u>7.5%</u>	<u>7.5%</u>
<u>2017</u>	<u>15.0%</u>	<u>22.5%</u>
<u>2018</u>	<u>20.0%</u>	<u>42.5%</u>
<u>2019</u>	<u>25.0%</u>	<u>67.5%</u>
<u>2020</u>	<u>32.5%</u>	<u>100.0%</u>

Staff recommends that a Table 4 be added to provide an illustrative example of how the standard could be met in 2020. The table would be as shown below.

Table 4. Illustrative Example of How the Energy Standard Could be Met in 2020

	<u>2020</u> <u>ENERGY</u> <u>EFFICIENCY</u> <u>STANDARD</u>	<u>2019</u> <u>RETAIL SALES</u> <u>(kWh)</u>	<u>REQUIRED</u> <u>CUMULATIVE</u> <u>ENERGY SAVINGS</u> <u>(kWh)</u>
Total	<u>22.00%</u>	<u>99,986,628</u>	<u>21,997,058</u>
<u>Demand Response</u> R14-2-2404(C)	<u>2.00%</u>		<u>1,999,733</u>
<u>Pre-rules Savings</u> R14-2-2404(D)			<u>3,622,923</u>
<u>Building Code</u> R14-2-2404(E)			<u>1,000,000</u>
<u>CHP</u> R14-2-2404(F)			<u>500,000</u>
<u>Self-direction</u> R14-2-2404(G)			<u>100,000</u>
<u>Energy Efficiency</u> R14-2-2404(A)			<u>14,774,402</u>

R14-2-2414(A)

Staff recommends that the sentence "Ratepayer-funded DSM shall be developed and implemented in a fuel-neutral manner." be clarified to read as "Ratepayer-funded DSM programs shall be developed and implemented in a fuel-neutral manner, meaning that an affected utility as an administrator of DSM programs should not bias the customer's fuel choice (such as electricity or gas) toward the fuel that the affected utility provides."

DISCUSSION OF THE ECONOMIC, SMALL BUSINESS, AND CONSUMER IMPACT STATEMENT

Staff recommends that a clarification be made to the Economic, Small Business, and Consumer Impact Statement that was filed on January 22, 2010.

Section B.1, first paragraph, second sentence

"Rules R14-2-2401 through R14-2-2419 require affected utilities by 2020 to achieve cumulative annual energy savings, measured in kilowatt-hours, equivalent to at least 22 percent of the affected utility's retail electric energy sales for the prior calendar year (2019)."

should be replaced with:

"Rules R14-2-2401 through R14-2-2419 require affected utilities, by December 31, 2020, to achieve cumulative annual energy savings, measured in kilowatt-hours, equivalent to at least 22 percent of the affected utility's retail electric energy sales for calendar year 2019."