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**OPEN MEETING**



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**ORIGINAL**

**MEMORANDUM RECEIVED**

Arizona Corporation Commission

**DOCKETED**

2010 JUL -7 P 3: 15

TO: THE COMMISSION

FROM: Utilities Division

JUL - 7 2010

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: July 7, 2010

DOCKETED BY  
[Handwritten initials]

RE: TUCSON ELECTRIC POWER -- APPLICATION FOR APPROVAL OF ITS REQUEST FOR ADDITIONAL FUNDING FOR ITS NON-RESIDENTIAL SMALL BUSINESS PROGRAM (DOCKET NO. E-01933A-07-0401)

On January 15, 2010, TEP filed an application requesting that the Commission approve an increase in funding for the Company's Small Business ("Small Business") Demand-Side Management ("DSM") program for 2010 through 2012. The purpose of the requested budget increase is to provide funding for unexpectedly high participation levels for this non-residential program.

Program Description. The Small Business program targets Non-Residential customers eligible for TEP's Rate 10, usually with an aggregate demand of 200 kW or less. Schools, regardless of size, are also eligible for the program. The program promotes the installation of energy efficient lighting; heating, ventilating and air conditioning equipment ("HVAC"); and refrigeration.

TEP launched the Small Business program on November 1, 2008, and utilized none of the 2008 incentive budget, leaving a combined incentive budget for 2009 of \$1,518,972. By December 31, 2009, TEP had paid \$1,150,000 in incentives, or approximately \$322,500 more in incentives than its current 2010 single-year incentive budget of \$827,502. If participation continues at the rate experienced in 2009, TEP would exhaust its budget before the end of the 2010 program year, possibly impacting future participation.

Proposed Budget. The table below reflects the current and proposed 2010 budgets for the Small Business program<sup>1</sup>:

Budget Categories	Current 2010 Budget	Requested 2010-2012 Budget <sup>2</sup>
Administrative	2010	Requested 2010
Internal Utility Managerial and Clerical	\$55,038	\$84,472
Travel and Direct Expenses	\$8,260	\$12,677

<sup>1</sup> A detailed breakdown of the existing and proposed budgets was provided by TEP in response to an inquiry from Staff.

<sup>2</sup> Although percentage allocations would remain constant, actual dollar amounts may adjust by up to 3% per year, primarily due to inflation.

## THE COMMISSION

July 7, 2010

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Overhead	\$5,532	\$8,490
<b>Total Administrative Cost</b>	<b>\$68,830</b>	<b>\$105,639</b>
Marketing	Current 2010	Requested 2010
Internal and Subcontracted Marketing Expense	\$58,640	\$90,000
<b>Total Marketing Cost</b>	<b>\$58,640</b>	<b>\$90,000</b>
Implementation	Current 2010	Requested 2010
Incentives	\$827,502	\$1,270,041
Implementation Contractor Services	\$358,355	\$550,000
Hardware and Materials	\$28,668	\$44,000
<b>Total Implementation Cost</b>	<b>\$1,214,525</b>	<b>\$1,864,041</b>
Evaluation, Measurement and Verification	Current 2010	Requested 2010
EM&V Activity	\$29,320	\$45,000
EM&V Overhead	\$7,854	\$12,055
<b>Total EM&amp;V Cost</b>	<b>\$37,174</b>	<b>\$57,055</b>
<b>Total Program Cost</b>	<b>\$1,379,170</b>	<b>\$2,116,735</b>

*Allocation to IC.* Staff expressed concern about the amount (\$550,000) allocated to the Implementation Contractor ("IC"). In communications with Staff, TEP explained that its initial estimate for implementation was low and that the Company originally intended to run its non-residential portfolio in-house, but determined that it did not have the resources or experience to implement complex, comprehensive non-residential programs. Using a competitive bidding process, the Company hired an IC and re-allocated most of the in-house administrative budget originally intended for TEP to the IC, reflecting the shift of responsibilities to the IC.

TEP stated that the contractor uses locally hired employees, and that their duties include marketing, contractor recruitment, contractor training, customer outreach, applications processing, pre- and post-inspection of customers' facilities, engineering services to assess customer incentive applications, rebate processing, reporting to TEP, and internal administration of the program. In addition, the IC provides a call center for questions from trade allies and customers, coordination with the Measurement, Evaluation and Research ("MER") contractor, communications with manufacturers and distributors, monitoring of supplies of qualifying products and tracking of manufacturer's plans for developing qualifying products.

*Staff Analysis and Recommendation.* The Small Business program is a direct install program requiring daily contacts between the IC and contractors. It also addresses a hard-to-reach customer segment, and is experiencing unexpectedly high levels of participation. Moreover, the increase in budget requested for the IC is proportionate to the requested increases for other budget categories, including incentives. Nonetheless, Staff remains concerned at the amount of funding allocated to the IC, and the absence of an existing cap. The IC is allocated 26 percent of the total program costs in both the existing 2010 budget and proposed 2010-2012

budgets.<sup>3</sup> Staff notes that the program was launched in late 2008, and that, as a program is ramped up, some per-unit costs (such as marketing) should decrease over time. This should be reflected in the budget for the IC.

Staff has recommended that the requested increase in the overall budget be approved, but that payments to Implementation Contractor not exceed 25 percent of the Small Business program's total budget, and that amounts over 25 percent of the proposed total budget be shifted from the IC category to incentives. This limitation would lower the proposed allocation by approximately \$20,816. (The amount for Implementation Contractor Services would be reduced to \$529,184 and the amount for Incentives would be increased to \$1,290,857.) The 25 percent cap would also provide a limit going forward.

*Bill Impacts.* The requested budget increase, projected kWh sales, per-kWh increment and average summer and winter Residential bill impacts are listed below:

Budget Increase Amount	Projected kWh Sales (2009)	DSM Adjustor per-kWh increment	Annual Residential Impact, Based on average 10,707 kWh usage	Annual Commercial Impact, Based on average 55,757 kWh usage
\$737,565	9,552,111,194	\$0.000077	\$0.83	\$4.31

The bill impacts shown above reflect a full year of the proposed increase to the Small Business program budget. The current DSM adjustor rate (which is not altered in this matter), was approved in Decision No. 71720 on June 3, 2010, and includes 80 percentage of the proposed budget increase, based on the program's high participation rate since inception. (Any over- or under-collections relative to spending for the overall DSM portfolio will be taken into account and trued up during the next adjustor reset.)

*Reporting Requirements.* In addition to the existing reporting requirements, Staff has recommended that the semi-annual DSM report, or any succeeding report ordered by the Commission, include a section which lists how much is paid to the IC, by program and in total.

#### Summary of Staff Recommendations

- Staff recommends that TEP's request to increase the overall budget for its Small Business program be approved.
- Staff recommends that payments to the IC not exceed 25% of the Small Business overall program budget.

<sup>3</sup> In 2009, 22.4% of total program spending went to Program Implementation, a category which includes direct program delivery costs, including implementation contractor labor and overhead costs. (See Table 2 of the semi-annual DSM report for TEP, for January through December 2009.)

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July 7, 2010

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- Staff recommends that TEP's semi-annual DSM reports, or any succeeding reports ordered by the Commission, include a section which lists how much is paid to the IC, by program, and in total.



Steven M. Olea  
Director  
Utilities Division

SMO:JMK:lh\RM

ORIGINATOR: Julie McNeely-Kirwan

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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 OF ITS )  
REQUEST FOR ADDITIONAL FUNDING )  
FOR ITS SMALL BUSINESS PROGRAM )

DOCKET NO. E-01933A-07-0401

DECISION NO. \_\_\_\_\_

ORDER

Open Meeting  
July 27 and 28, 2010  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "the Company") is engaged in providing electric power within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On January 15, 2010, TEP filed an application requesting that the Commission approve an increase in funding for the Company's Small Business ("Small Business") Demand-Side Management ("DSM") program for 2010 through 2012. The purpose of the requested budget increase is to provide funding for unexpectedly high participation levels for this non-residential program.

3. Program Description. The Small Business program targets Non-Residential customers eligible for TEP's Rate 10, usually with an aggregate demand of 200 kW or less. Schools, regardless of size, are also eligible for the program. The program promotes the

1 installation of energy efficient lighting; heating, ventilating and air conditioning equipment  
2 (“HVAC”); and refrigeration.

3 4. TEP launched the Small Business program on November 1, 2008, and utilized none  
4 of the 2008 incentive budget, leaving a combined incentive budget for 2009 of \$1,518,972. By  
5 December 31, 2009, TEP had paid \$1,150,000 in incentives, or approximately \$322,500 more in  
6 incentives than its current 2010 single-year incentive budget of \$827,502. If participation  
7 continues at the rate experienced in 2009, TEP would exhaust its budget before the end of the 2010  
8 program year, possibly impacting future participation.

9 5. Proposed Budget. The table below reflects the current and proposed 2010-2012  
10 budgets for the Small Business program<sup>1</sup>:

Budget Categories	Current 2010 Budget	Requested 2010-2012 Budget <sup>2</sup>
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24 6. Allocation to IC. Staff expressed concern about the level of funding (\$550,000)  
25 allocated to the Implementation Contractor (“IC”). In communications with Staff, TEP explained  
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27 <sup>1</sup> A detailed breakdown of the existing and proposed budgets was provided by TEP in response to an inquiry from Staff.

28 <sup>2</sup> Although percentage allocations would remain constant, actual dollar amounts may adjust by up to 3% per year, primarily due to inflation.

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2 run its non-residential portfolio in-house, but determined that it did not have the resources or  
3 experience to implement complex, comprehensive non-residential programs. Using a competitive  
4 bidding process, the Company hired an IC and re-allocated most of the in-house administrative  
5 funding originally intended for TEP to the IC, reflecting the shift of responsibilities to the IC.

6 7. TEP stated that the contractor uses locally hired employees, and that their duties  
7 include marketing, contractor recruitment, contractor training, customer outreach, applications  
8 processing, pre- and post-inspection of customers' facilities, engineering services to assess  
9 customer incentive applications, rebate processing, reporting to TEP and internal administration of  
10 the program. In addition, the IC provides a call center for questions from trade allies and  
11 customers, coordination with the Measurement, Evaluation and Research ("MER") contractor,  
12 communications with manufacturers and distributors, monitoring of supplies of qualifying  
13 products and tracking of manufacturer's plans for developing qualifying products.

14 Staff Analysis and Recommendation. The Small Business program is a direct install program  
15 requiring daily contacts between the IC and contractors. It also addresses a hard-to-reach customer  
16 segment, and is experiencing unexpectedly high levels of participation. Moreover, the increase in  
17 funding requested for the IC is proportionate to the increase in funding for other budget categories,  
18 including incentives. Nonetheless, Staff remains concerned at the amount of funding allocated to  
19 the IC, and the absence of an existing cap. The IC is allocated 26 percent of the total program  
20 costs in both the existing 2010 budget and proposed 2010-2012 budgets.<sup>3</sup> Staff notes that the  
21 program was launched in late 2008, and that, as a program is ramped up, some per-unit costs (such  
22 as marketing) should decrease over time. This should be reflected in the budget for the IC.

23 8. Staff has recommended that the requested increase in the overall budget be  
24 approved, but that payments to Implementation Contractor not exceed 25 percent of the Small  
25 Business program's total budget, and that amounts over 25 percent of the proposed total budget be  
26 shifted from the IC category to incentives. This limitation would lower the proposed allocation by

27 <sup>3</sup> In 2009, 22.4% of total program spending went to Program Implementation, a category which includes direct  
28 program delivery costs, including implementation contractor labor and overhead costs. (See Table 2 of the semi-  
annual DSM report for TEP, for January through December 2009.)

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2 \$529,184 and the amount for Incentives would be increased to \$1,290,857.) The 25 percent cap  
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5 increment and average summer and winter Residential bill impacts are listed below:

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\$737,565	9,552,111,194	\$0.000077	\$0.83	\$4.31

9  
10 10. The bill impacts shown above reflect a full year of the proposed increase to the  
11 Existing Facilities program budget. The current DSM adjustor rate (which is not altered in this  
12 matter), was approved in Decision No. 71720 on June 3, 2010, and includes 80 percent of the  
13 proposed budget increase, based on the program's high participation rate since inception. (Any  
14 over- or under-collections relative to spending for the overall DSM portfolio will be taken into  
15 account and trued up during the next adjustor reset.)

16 11. Reporting Requirements. In addition to the existing reporting requirements, Staff  
17 has recommended that the semi-annual DSM report, or any succeeding report ordered by the  
18 Commission, include a section which lists how much is paid to the IC, by program and in total.

19 CONCLUSIONS OF LAW

20 1. TEP is an Arizona public service corporation within the meaning of Article XV,  
21 Section 2, of the Arizona Constitution.

22 2. The Commission has jurisdiction over TEP and over the subject matter of the  
23 application.

24 3. The Commission, having reviewed the application and Staff's Memorandum dated  
25 July 7, 2010, concludes that it is in the public interest to approve the increase to the overall budget  
26 for the Small Business program.

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ORDER

IT IS THEREFORE ORDERED that Tucson Electric Power Company's request to increase the overall budget for the Small Business program be approved, but that payments to the Implementation Contractor not exceed 25 percent of the total Small Business program budget.

IT IS FURTHER ORDERED that Tucson Electric Power Company's semi-annual DSM report, or any succeeding report ordered by the Commission, include a section which lists how much is paid to the IC, by program and in total.

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

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

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

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

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

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

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

SMO:JMK:lh\RM

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