



0000116142

BEFORE THE ARIZONA CORPORATION COMMISSION

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

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

Arizona Corporation Commission

DOCKETED

AUG 10 2010

DOCKETED BY  
NR

IN THE MATTER OF THE APPLICATION  
OF TUCSON ELECTRIC POWER  
COMPANY FOR APPROVAL OF ITS  
REQUEST FOR ADDITIONAL FUNDING  
FOR ITS NON-RESIDENTIAL EXISTING  
FACILITIES PROGRAM

DOCKET NO. E-01933A-07-0401

DECISION NO. 71836

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 Existing Facilities ("Existing Facilities") Demand-Side Management ("DSM") program for 2010 through 2012. The purpose of the requested increase is to accommodate unexpectedly high participation levels for this non-residential program.

...

...

...

1           3.       The Company reports that, by December 31, 2009, TEP paid \$746,000 in  
2 incentives, almost exhausting the combined 2008 and 2009 incentive budget of \$775,866.<sup>1</sup> Given  
3 this rate of participation, TEP believes that, without an increase, the program would exhaust its  
4 budget before the end of its 2010 program year.

5           4.       Program Description. The Existing Facilities program targets Non-Residential  
6 customers on Rates 13 and 14, usually with an aggregate demand of 200 kW or more. The  
7 program promotes the installation of energy efficient lighting; heating, ventilating and air  
8 conditioning equipment ("HVAC"); motors; motor drives; compressed air and refrigeration.

9           5.       Scope of Review; Compliance. Decision No. 70403 originally approved the  
10 Existing Facilities program, but ordered that the HVAC portion of the Existing Facilities program  
11 be treated as a pilot, due to insufficient data on the HVAC measures' cost-effectiveness. TEP was  
12 ordered to provide updated local price, size and efficiency information on HVAC equipment no  
13 later than September 30, 2009, so that the cost-effectiveness of these measures could be properly  
14 assessed.

15           6.       In accordance with Decision No. 70403, TEP filed the required information, and  
16 included updated information on energy savings. TEP also provided data respecting Non-  
17 residential HVAC equipment of less than 5.4 tons, having determined during the course of the  
18 program that there was a market for the smaller tonnage HVAC units among potential non-  
19 residential program participants.

20           7.       Program spending is likely to be impacted by the number and type of measures  
21 eligible for incentives, and it is Staff's position that, to be eligible, a DSM measure must be cost-  
22 effective. In order to have a more complete understanding of the program's budget needs, Staff  
23 has analyzed the cost-effectiveness of the HVAC measures, to ascertain whether they should be  
24 eligible for incentives and taken into account when considering the proposed budget increase. To  
25 perform the analysis, Staff utilized the updated data in incremental costs and energy savings from  
26 the compliance filing.

27  
28 <sup>1</sup> The program was launched in October 2008, so little of the 2008 incentive budget was expended. The Company allowed the Implementation Contractor to use the combined total incentive dollars for 2008 and 2009.

8. In order to be cost-effective, the benefit-cost ratio of a measure must be at least 1.0, (although, under the Societal Cost Test used by Staff, non-monetized environmental benefits are taken into account for measures close to 1.0). Staff's analysis indicates that the HVAC measures are cost-effective, even without taking environmental benefits into account, and should remain eligible for incentives as part of the Existing Facilities program. The cost-effectiveness of the HVAC measures, both air conditioners and heat pumps, are listed in the table below, by tonnage.

Non-residential Split and Packaged Air Conditioners	
Unit Type (Size)	Benefit-Cost Ratios
Less Than 5.4 Tons	1.02
5.4 to 11.25 Tons	1.11
11.25 to 20 Tons	1.82
More than 20 Tons	1.33
Non-residential Split and Packaged Heat Pumps	
Unit Type (Size)	Benefit-Cost Ratios
Less Than 5.4 Tons	1.12
5.4 to 11.25 Tons	1.18
11.25 to 20 Tons	1.97
More than 20 Tons	1.01

9. Staff has recommended that the HVAC measures continue to be eligible for incentives as part of the Existing Facilities program.

10. *Budgets: Existing and Proposed.* Below is a table showing the proposed increases, by category<sup>2</sup>:

Budget Categories	Current 2010 Budget	Requested 2010-2012 Budget <sup>3</sup>
Administrative	Current 2010	Requested 2010
Internal Utility Managerial and Clerical	\$29,636	\$84,472
Travel and Direct Expenses	\$4,448	\$12,677
Overhead	\$2,979	\$8,490
<b>Total Administrative Cost</b>	<b>\$37,062</b>	<b>\$105,639</b>
Marketing	Current 2010	Requested 2010
Internal and Subcontracted Marketing Expense	\$31,575	\$90,000
<b>Total Marketing Cost</b>	<b>\$31,575</b>	<b>\$90,000</b>
Implementation	Current 2010	Requested 2010
Incentives	\$445,578	\$1,270,041

<sup>2</sup> A detailed breakdown of the existing and proposed budgets was provided by TEP in response to an inquiry from Staff.

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

1	Implementation Contractor Services	\$192,961	\$550,000
2	Hardware and Materials	\$15,437	\$44,000
3	<b>Total Implementation Cost</b>	<b>\$653,975</b>	<b>\$1,864,041</b>
4	Evaluation, Measurement and Verification ("EM&V")	Current 2010	Requested 2010
5	EM&V Activity	\$15,788	\$45,000
6	EM&V Overhead	\$4,229	\$12,055
7	<b>Total EM&amp;V Cost</b>	<b>\$20,017</b>	<b>\$57,055</b>
8	<b>Total Program Cost</b>	<b>\$742,631</b>	<b>\$2,116,735</b>

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

16 12. TEP stated that the contractor uses locally hired employees, and that their duties  
 17 include marketing, contractor recruitment, contractor training, customer outreach, applications  
 18 processing, pre- and post-inspection of customers' facilities, engineering services to assess  
 19 customer incentive applications, rebate processing, reporting to TEP, and internal administration of  
 20 the program. The full-time employees include an engineer hired to evaluate customers' systems for  
 21 the Existing Facilities program<sup>4</sup> (due to the highly technical nature of systems for the larger  
 22 commercial or industrial customers). In addition, the IC provides a call center for questions from  
 23 trade allies and customers, coordination with the Measurement, Evaluation and Research ("MER")  
 24 contractor, communications with manufacturers and distributors, monitoring of supplies of  
 25 qualifying products and tracking of manufacturer's plans for developing qualifying products.

26 13. Staff Analysis and Recommendations. The increased budget requested for the IC is  
 27 proportionate to the increases requested for other budget categories, including incentives.  
 28 Moreover, the program has unusually complex technological requirements and is experiencing

<sup>4</sup> The engineer primarily works on the Existing Facilities program, but also provides technical support to the Small Business program on an as-needed basis.

1 high levels of participation. Nonetheless, Staff remains concerned at the amount allocated to the  
 2 IC, and the absence of an existing cap. The IC is allocated 26 percent of the total program costs in  
 3 both the existing 2010 budget and proposed 2010-2012 budgets.<sup>5</sup> Staff notes that the program was  
 4 launched in late 2008, and that, as a program is ramped up, some per-unit costs (such as  
 5 marketing) should decrease over time. This should be reflected in the budget for the IC.

6 14. Staff has recommended that the increase to the overall budget be approved, but that  
 7 payments to the Implementation Contractor not exceed 21 percent of the Existing Facilities  
 8 program budget, and that amounts over 21 percent of the proposed total budget be shifted from the  
 9 IC category to incentives. (This would mean that, in the budget table above, the proposed budget  
 10 amount under "Implementation Contractor Services" would be reduced from \$550,000 to  
 11 \$444,514, and the budget amount under "Incentives" would be increased from \$1,270,041 to  
 12 \$1,375,527.) The 21 percent cap would also provide a limit going forward. We agree with  
 13 increasing the overall budget as requested, but disagree with the cap on the IC budget.

14 15. Bill Impacts. The requested budget increase, projected kWh sales, per-kWh  
 15 increment and average summer and winter Residential bill annual 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
\$1,374,105	9,552,111,194	\$0.000144	\$1.54	\$8.02

16 16. The bill impacts shown above reflect a full year of the proposed increase to the  
 17 Existing Facilities program budget. The current DSM adjustor rate (which is not altered in this  
 18 matter), was approved in Decision No. 71720 on June 3, 2010, and includes 80 percent of the  
 19 proposed budget increase, based on the program's high participation rate since inception. (Any  
 20 over- or under-collections relative to spending for the overall DSM portfolio will be taken into  
 21 account and trued up during the next adjustor reset.)  
 22  
 23  
 24  
 25  
 26

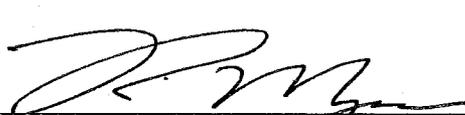
27 <sup>5</sup> In 2009, 22.4% of total program spending went to Program Implementation, a category which includes direct  
 28 program delivery costs, including implementation contractor labor and overhead costs. (See Table 2 of the semi-annual DSM report for TEP, for January through December 2009.)



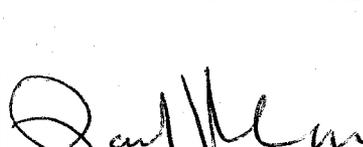
1 IT IS FURTHER ORDERED that Tucson Electric Power Company's semi-annual DSM  
2 report, or any succeeding report ordered by the Commission, include a section which lists how  
3 much is paid to the IC, by program and in total.

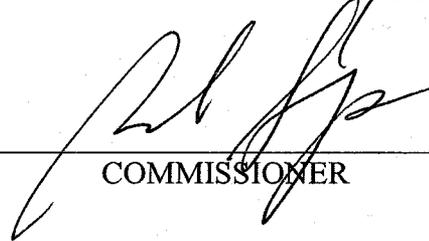
4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5  
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7   
8 CHAIRMAN

  
COMMISSIONER

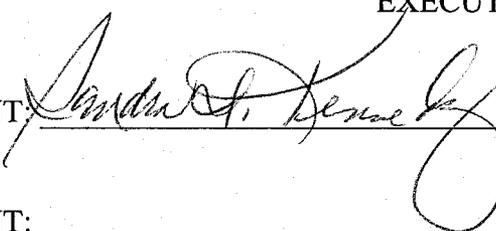
9  
10   
11 COMMISSIONER

  
COMMISSIONER

COMMISSIONER

12  
13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
14 Executive Director of the Arizona Corporation Commission,  
15 have hereunto, set my hand and caused the official seal of  
16 this Commission to be affixed at the Capitol, in the City of  
17 Phoenix, this 10<sup>th</sup> day of August, 2010.

18   
19 ERNEST G. JOHNSON  
20 EXECUTIVE DIRECTOR

21 DISSENT:   
22 DISSENT: \_\_\_\_\_

23 SMO:JMK:lhM\RM  
24  
25  
26  
27  
28

1 SERVICE LIST FOR: Tucson Electric Power Company  
2 DOCKET NO. E-01933A-07-0401

3 Mr. Michael W. Patten  
4 Roshka DeWulf & Patten, PLC  
5 One Arizona Center  
6 400 East Van Buren Street, Suite 800  
7 Phoenix, Arizona 85004

Ms. Janice M. Alward  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

6 Mr. Phillip J. Dion  
7 Tucson Electric Power Company  
8 One South Church Avenue, Suite 200  
9 Tucson, Arizona 85701

9 Mr. C. Webb Crockett  
10 Mr. Patrick J. Black  
11 Fennemore Craig, PC  
12 3003 North Central Avenue, Suite 2600  
13 Phoenix, Arizona 85012-2913

12 Mr. Timothy M. Hogan  
13 Arizona Center for Law in the Public Interest  
14 202 East McDowell Road, Suite 153  
15 Phoenix, Arizona 85004

15 Mr. David Berry  
16 Western Resources Advocates  
17 Post Office Box 1064  
18 Scottsdale, Arizona 85252-1064

18 Mr. Jeff Schlegel  
19 SWEEP Arizona  
20 1167 West Samalayuca Drive  
21 Tucson, Arizona 85704-3224

21 Mr. Daniel Pozefsky  
22 RUCO  
23 1110 West Washington, Suite 220  
24 Phoenix, Arizona 85007

24 Mr. Steven M. Olea  
25 Director, Utilities Division  
26 Arizona Corporation Commission  
27 1200 West Washington Street  
28 Phoenix, Arizona 85007