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October 27, 2010

AZ CORP COMMISSION Arizona Corporation Commission  
DOCKET CONTROL **DOCKETED**

OCT 28 2010

Chairperson Mayes and Members  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

DOCKETED BY

**RE: Draft ACC Policy Statement regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures, Docket Nos. E-000007-08-0314 and G-00000C-08-0314.**

Dear Chairperson Mayes and Members of the Arizona Corporation Commission:

Please consider the following comments on behalf of the Sierra Club's Grand Canyon Chapter and our 12,000 members in Arizona regarding the draft Arizona Corporation Commission Policy Statement regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures.

We would like to once again commend the Commission for its leadership on energy efficiency – the energy efficiency provisions included in the last Arizona Public Service rate case, the Electric Utility Energy Efficiency Standard approved by the Commission, and the Gas Utility Energy Efficiency Standard that is nearing completion by the Commission, all will help make Arizona a leader on energy efficiency. To ensure the continued support for those programs and rules and to implement all cost-effective energy efficiency programs, it is critical to address the disincentives for promoting efficiency in the utility rate structures. The draft policy statement you have put forth is a key step in doing that as well.

Consideration of a program that reduces the utility financial disincentives for investing more in energy efficiency programs will be essential to assuring that we are maximizing opportunities to be more efficient. The Arizona Public Service most recent rate case settlement, the Electric Utility Energy Efficiency Standard, and the Gas Utility Energy Efficiency Standard combined will mean significant increases in energy efficiency programs with huge benefits to the utility customers – even when you account for the costs of the energy efficiency programs. For example, for APS, the Growth in energy sales will be reduced from 2.8% to 1.1% per year with implementation of the Energy Efficiency Standard.

Because of the structure of utilities and how they have historically recovered their fixed costs through kilowatt-hour charges, there is a disincentive for them to invest in additional energy efficiency. Addressing that fixed cost recovery will help to limit or eliminate this disincentive and better align the financial interests of the utilities with the interests of their customers and the larger public.

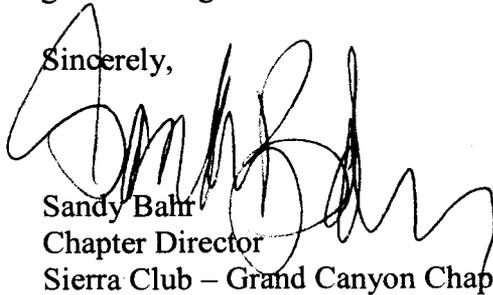
That being said, it is essential that the Commission seek to also manage the risks to ratepayers associated with decoupling.

Decoupling mechanisms should **only** be considered for utilities that have energy efficiency implementation plans in place and approved by the Arizona Corporation Commission. The mechanisms should be limited to recovering fixed costs that would not otherwise be recovered because the utility energy efficiency programs. Penalties should be imposed if a utility recovers costs and does not achieve its energy efficiency goal.

We agree strongly with the policy statement provision that states utilities should pursue all cost-effective energy efficiency and demand-side management resources. Doing so will help consumers by lowering bills, reduce energy and water use, and help to reduce both greenhouse gas emissions and other air pollutants that affect the health and well-being of Arizonans.

Thank you for considering our comments, and, again, we urge you to adopt this policy statement on decoupling. We believe it will move Arizona down the path to implementing all cost-effective energy programs, thus saving consumers dollars, saving water, and reducing certain pollutants, including greenhouse gas emissions.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandy Baltr", written over the typed name and title.

Sandy Baltr  
Chapter Director  
Sierra Club – Grand Canyon Chapter