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ARIZONA CORPORATION COMMISSION
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Arizona Corporation Commission
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OCT 28 2010

Chairman Kristin K. Mayes
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

DOCKETED BY 

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

Dear Chairman Mayes,

Arizona Public Service Company ("APS" or "Company") appreciates the Arizona Corporation Commission's ("ACC" or "Commission") efforts to bring forth the draft decoupling policy statement. As APS has previously stated, decoupling is an essential companion policy to the Commission's Energy Efficiency Standard ("EES"). APS believes that decoupling is an extremely important tool that will align the interests of utilities and their customers in pursuing energy efficiency. It will also, importantly, enable the Company to pursue the country's most aggressive EES – one that will reduce energy sales by 22% by 2020.

Further, APS welcomes the opportunity to provide comments on the Commission's draft policy statement issued on October 18, 2010. APS actively participated in the Commission-sponsored decoupling workshops held this year, and believes the draft policy statement is an accurate reflection of the discussions among the parties that provides the appropriate level of guidance to address utility disincentives associated with implementing significant levels of energy efficiency. APS will first address the questions posed in your letter and will then provide comments on the draft decoupling policy statement.

APS's Response to Questions Posed in Letter Related to Resource Planning

1. The Lawrence Berkeley National Laboratories' ("LBNL") analysis of the benefits associated with the Commission's Energy Efficiency Standard, as presented and discussed in the workshops, identified \$5.2 billion of ratepayer bill savings at Tucson Electric Power ("TEP") and Arizona Public Service Company ("APS") combined, even accounting for the rate impacts associated with decoupling. Please confirm for the Commission the basis of these savings, i.e. I would like both TEP and APS to identify which generation plants, both base load and peaking, will be deferred as a result of the energy efficiency standard and for how long those plants will be deferred.

Response:

In the 2009 Integrated Resource Plan (“IRP”), filed with the Commission on January 29, 2009,¹ APS anticipated needing new baseload resources in the 2022 timeframe. With the adoption of a long-term EES, in combination with an appropriate decoupling mechanism, APS expects to defer both future baseload and peaking resources, notwithstanding any other factors that would affect long-term resource needs, such as the economic recession. Based on current planning assumptions,² the EES delays significant new future baseload energy needs beyond the current 15-year resource planning time horizon, and such new baseload plants would likely fall to sometime in the 2027-2030 timeframe.

As with baseload resources, the need for future peaking resources has been significantly impacted by the EES. APS’s 2009 IRP filing anticipated new peaking resources would be needed beginning in 2016 and ramping up significantly by 2020. While APS currently anticipates initially needing new peaking resources by 2017, a one year deferral from the pre-EES estimate, the current anticipated need in 2020 for peaking resources has been reduced by approximately 1,100 MW as compared to the 2009 IRP filing. This deferral of peaking resources roughly equates to a 5-year deferral in the need for peaking resources. In addition to the impacts from the EES, the delay in peaking resources has also been favorably impacted by the anticipated future additions of demand response programs.

2. If any utility that advocated for decoupling now believes that any of the deferrals identified in the LBNL analysis will not occur, please state so and any reasons for this change in assessment.

Response:

Noting that the need for future resources depends on many factors, including the pace of economic recovery in APS’s service territory, impacts to existing generating resources, and the specific types of future energy efficiency programs and their associated energy profiles, APS continues to agree with the conclusions of the LBNL study presented during the decoupling workshops. If complimented by an effective decoupling mechanism, like that contained in the draft policy statement, deferrals of future resources such as those described in the LBNL study are both likely and have been factored into the Company’s most recent resource plan.

3. Please tell the Commission what your 2011 Integrated Resource Plans, to be filed soon with the Commission pursuant to the ACC’s IRP rules, will state with regard to the Energy Efficiency Standard’s impact on generation deferrals at your utility.

¹ Docket No. E-01345A-09-0037.

² Specifically, these planning assumptions do not reflect potential impacts to the resource plan arising from *existing* baseload resources, such as the environmental regulatory challenges affecting both the Four Corners and Navajo Generating Stations. Obviously, if existing baseload resources are forced to retire early, a replacement baseload resource may be required.

Response:

APS is still in the process of developing its upcoming IRP filing in response to the recently adopted Commission IRP rules. However, as stated in response to the previous questions, APS no longer anticipates including any significant new baseload resource in the 15-year planning horizon as a result of the EES. Additionally, the Company anticipates that energy efficiency programs have the potential to reduce customer peak demand by approximately 1,100 MW by the year 2020. While new peaking resources are currently anticipated in the 2017 timeframe, the amount of peaking resources has been reduced dramatically. In APS's 2009 IRP filing, approximately 1,900 MW of peaking resources were anticipated by 2020. Although work on the upcoming IRP filing is not complete, APS currently anticipates only needing approximately 800 MW of peaking resources by the year 2020.

Another factor that will also influence the timing and amount of future resource needs, besides the EES and overall economic growth, is the customer adoption rate of distributed energy applications. Distributed energy has the effect of reducing the amount of energy APS is required to provide for its customers, which can further delay the need for future resources. The draft decoupling statement also anticipates these impacts by proposing full rather than partial decoupling.

The types, timing and amount of future resource needs deferred by the EES will also be influenced by the energy profiles of future energy efficiency programs, in other words, the time during the day or night when future programs will be reducing customer energy demands. For example, programs that influence energy consumption during afternoon peak periods will have the effect of reducing the need for peaking resources. Alternatively, programs that influence energy consumption during nighttime hours will have the effect of reducing the need for baseload resources. Regardless, with decoupling in place to allow APS to achieve these standards, APS believes that the EES will have a significant impact on the timing and amount of future baseload and peaking resource needs.

APS's Comments on Draft Decoupling Policy Statement

1. General Comments

APS supports the draft decoupling policy statement. In fact, while the policy statement states that revenue decoupling "*may* offer significant advantages over alternative mechanisms for addressing utility financial disincentives," APS strongly believes revenue decoupling *does* offer significant advantages. Revenue per customer decoupling, as appropriately noted in the policy statement, allows a utility to fully recover its fixed costs of service, while addressing customer growth, and is particularly well suited for APS and other Arizona utilities. With the recent adoption of the nation's most aggressive EES, the implementation of a revenue per customer decoupling mechanism is essential to allow a utility to collect its fixed costs of service independent of volumetric sales.

2. *Specific Comments*

Statement 3 suggests that “some form of decoupling *or* utility financial incentives must be adopted in order to encourage aggressive use of demand side management programs and the achievement of Arizona’s Electric and Gas Energy Efficiency Standards.” (Emphasis supplied.) If by “financial incentives” the draft decoupling policy statement is referring to the current performance-based incentives, it is not a question of one versus the other. APS believes that *both* decoupling *and* utility financial incentives must be adopted to achieve the nation’s most aggressive EES.

Statement 10 addresses the frequency of adjustments and encourages either monthly or quarterly decoupling adjustments, if possible. While APS understands the desire for more concurrent adjustments, an annual adjustment is still preferred by the Company for several reasons. More frequent adjustments could result in greater effects on customer bills, whereas an annualized adjustment will provide customers with more rate gradualism and not subject them to volatile swings in rates – something neither the Commission, APS, nor customers want. Additionally, if more frequent adjustments were implemented, a higher cap would be necessary to allow for the greater monthly fluctuations, which again leads to less stability in customer rates. Finally, if decoupling adjustments are made on anything other than a simple across-the-board per kWh basis, it could pose additional challenges to more frequent adjustments, both technically and in terms of the customer impact.

Statement 13 recommends applying the decoupling adjustment in such a way as to promote conservation. APS is very supportive of promoting energy efficiency and conservation through rate design. The Company currently has robust time-of-use (“TOU”) rates – which have the highest customer participation rate in the US. APS’s only non-TOU residential rate schedule has an inclining block rate, which strongly encourages energy conservation. Thus, APS complies with Statement 7, which suggests tailoring rate design options to encourage participation in energy efficiency. However, the suggested rate design philosophy for asymmetrical application of surcharges and credits in Statement 13 raises issues of equity and practicality. Specifically, those most likely to have caused any over/under recovery of fixed costs would be denied many of the benefits of any refund. This is because any increased per customer usage (which would trigger a refund) is likely to come from customers using higher levels of energy. Also, all but one of APS’s residential rate schedules have uniform (flat) per kWh charges, thus there are no “initial” or “tail” blocks of usage that could be separately assessed a credit or surcharge. The single remaining residential schedule, E-12, already has a severely inclining tail block charge that APS would not recommend exacerbating by bearing the full brunt of any decoupling surcharge.

Lastly, Statement 14 addresses the use of caps or collars on the adjustments to ensure more rate gradualism for customers. The statement recommends that if a refund to customers occurs, the amount should not be capped, whereas if a surcharge occurs, the adjustment should be capped. In the workshops, all parties supportive of decoupling stated that a utility

Kristin K. Mayes, Chairman

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should receive full compensation for any amount over the cap through a deferral or carryover to be collected at a later time. APS believes symmetry in receiving full credit for either refunds or surcharges for both customers and the Company is necessary and that a deferral or carryover with a cap would achieve this symmetry.

If you have any questions regarding these comments, please contact me at (602) 250-3730.

Sincerely,



Leland R. Snook

LRS/sl

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