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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- GARY PIERCE, Chairman
- BOB STUMP
- SANDRA D. KENNEDY
- PAUL NEWMAN
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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF A
RESIDENTIAL DEMAND RESPONSE
PILOT PROGRAM

DOCKET NO. E-01345A-10-0075

**ARIZONA PUBLIC SERVICE
COMPANY'S COMMENTS TO
STAFF'S REPORT AND
RECOMMENDED ORDER**

Arizona Public Service Company ("APS" or "Company") hereby files its comments in response to the Staff Report and Recommended Order dated December 30, 2010, in this docket. APS supports the Staff recommendation for Commission approval of the proposed Home Energy Information Pilot ("HEI Pilot") and the associated Experimental Service Schedule 16 ("Schedule 16), as well as the cost recovery through the Demand Side Management Adjustor Clause ("DSMAC"). However, as discussed below, APS disagrees with Staff's position that the Prepay Energy Service Program ("Prepay Program") does not qualify as Demand Side Management ("DSM"), and urges the Commission to approve the Prepay Program as filed. Additionally, in response to the Staff's recommendation to eliminate approximately \$449,000 in program costs, APS urges the Commission to refrain from adopting this budget reduction of 25%. Such a reduction will have programmatic impacts on the HEI Pilot, likely requiring a decrease in the number of participating customers and limiting the ability for customer outreach. Finally, APS is providing an update on the timing of deployment for the HEI Pilot.

Prepay Energy Service Program

The proposed Prepay Program is a "pay as you go" option that provides customers with the ability to track their energy usage and balance on a daily basis. Nationally,

1 prepayment programs are recognized as strong drivers of customer satisfaction,¹ and APS has
2 found that this type of program is frequently requested by new customers.² The proposed
3 Prepay Program would offer customers alternatives to better manage their energy costs,
4 which is particularly relevant during the current challenging economic times. Customer
5 benefits as a result of this program include: the elimination of up-front deposits (regardless of
6 the customer's credit score); the elimination of field collection charges; the elimination of
7 service establishment fees for reconnection of existing prepay service accounts; and the
8 elimination of late fees. The Prepay Program will provide the same optionality with regard to
9 payment methods that exist today, including: mail; phone; on-line; credit cards; or in-person
10 at APS offices or over 200 authorized payment locations throughout APS's service territory.
11 It also allows Prepay Program customers the flexibility to make payments of any amount and
12 at any frequency to maintain a credit balance and to more effectively match a customer's
13 earning patterns.

14 Furthermore, the Prepay Program is expected to both reduce a customer's energy
15 usage, which falls squarely within the Commission's Energy Efficiency Standard Rules
16 definition of energy efficiency as "the conservation of energy by end-use customers,"³ and
17 modify participating customer behavior related to their electricity consumption patterns to
18 affect the timing or quantity of their demand and usage, which falls within the definition of
19 "demand response" under the Rules.⁴ Around the country, prepay programs have proven to
20 provide measurable energy efficiency over the long-term. Successful programs, such as Salt
21 River Project's ("SRP's") M-Power (which is the largest and most successful prepay program
22 in North America)⁵ and Oklahoma Electric Cooperative's prepay program, have consistently

25 ¹ According to Chartwell, *The Prepaid Metering Report 2008, 5th Edition*, at 18, prepay customer satisfaction
26 levels are among the highest of any program or service implemented.

27 ² This is especially the case for former Salt River Project customers who previously were enrolled in SRP's
28 highly successful prepay program, M-Power.

³ See the Commission's Energy Efficiency Rules; A.A.C. R14-2-2401(17).

⁴ See A.A.C. R14-2-2401(10).

⁵ SRP has over 100,000 customers on this program to date.

1 reported energy consumption savings of approximately 12% for prepay participants.⁶
2 Similarly, utilities that have implemented prepay programs have had participating customers
3 tell them that in response to a signal from the utility regarding a low balance, customers have
4 chosen not to operate certain appliances and electrical devices.⁷

5 APS fully expects to see similar results with its proposed Prepay Program, making it a
6 legitimate part of the Company's Energy Efficiency portfolio. As such, the proposed Prepay
7 Program costs should be recoverable through the DSMAC. Once approved by the
8 Commission, APS intends to incorporate the Prepay Program into its future DSM
9 Implementation Plans. Likewise, APS will also include reporting on the progress of the
10 Prepay Program in the semi-annual DSM reports, which contain all energy efficiency
11 program results for the prior six months.

12 Staff has indicated that the Prepay Program will have broad implications that require
13 greater analysis and review, and recommended that APS wait until its next general rate case
14 to seek approval of the program. APS would like to point out that it is for those reasons that
15 the proposed Prepay Program is a pilot program, designed to test the response of a limited
16 number of customers and the impacts and effectiveness of the program.⁸ If the Company
17 must wait until the Commission makes its determination in the next rate case, the opportunity
18 to assess the viability of such a program will be delayed, and customers will have to wait
19 longer for a program that is already being requested by customers. Once the Company has
20 determined the technical feasibility and customer functionality of the pilot program, APS
21 would seek specific Commission approval prior to full deployment, which could be done in a
22 subsequent proceeding.

23 Staff also indicated that another reason to delay approval of the program until a general
24 rate case is that there may be fair value implications related to approximately \$2 million
25 investment that will be required to purchase, install and maintain new hardware and
26

27 ⁶ See Chartwell, *The Prepaid Metering Report 2008, 5th Edition*, at 15; see also *OEC News*, Volume 59, No. 6,
December 2010 at 6.

28 ⁷ Chartwell report at 31-32.

⁸ The Prepay Program Pilot would be offered to up to 2,000 customers.

1 Information Technology (“IT”) assets. However, it is important to note that any rate base
2 implications are minimal; the \$2 million capital cost is less than one-tenth of 1% of APS’s
3 rate base. Additionally, the Prepay Program pilot is revenue neutral—there are no additional
4 fees to participate in the program.⁹ This revenue neutrality also dispels fair value concerns.

5 To assure that interested parties were aware of the proposed Prepay Program, and to
6 solicit their feedback regarding the program, APS engaged representatives from community
7 organizations.¹⁰ In response to concerns raised, APS has committed to working closely with
8 community stakeholders to ensure that the customer outreach plan, screening tools and
9 education materials, as well as the study size and design, meet the needs of community
10 stakeholders and the interest groups they represent. APS is also committed to ensure that
11 sufficient service disconnection protections are in place, including notification of customers
12 before a disconnection, and a moratorium on disconnections on severe weather days.

13 To successfully meet Arizona’s aggressive Energy Efficiency Standard in the future,
14 APS believes that a variety of programs, including the proposed Prepay Program – which is
15 already associated with high customer satisfaction ratings – will be needed. APS urges the
16 Commission to include the Prepay Program and its associated funding as part of the HEI
17 Pilot. A proposed amendment that would modify the Recommended Order to include the
18 Prepay Program is attached as Exhibit A.

19 **Non-Capital Expenses**

20 APS agrees with Staff’s recommendation that non-capital (operations and maintenance
21 or O&M) expenses should be recovered through the DSMAC, and agrees that in the event
22 that the Commission does not approve the Prepay Program, approximately \$105,000 in
23 variable O&M expenses should be eliminated from the budget. This \$105,000 consists of
24 non-capital IT efforts that are specific to the Prepay Program and the forecasted costs of
25

26 ⁹ Schedule 16, for which APS is seeking approval as part of this application, is NOT a rate schedule but rather
27 an experimental service schedule, which describes in detail how participating customers will receive service
28 under the HEI Pilot.

¹⁰ APS discussed the Prepay Program with Arizona Community Action Association, the Residential Utility
Consumer Office, and Southwest Energy Efficiency Project.

1 providing a Home Energy Audit to participants in the Pilot, which would be avoided if there
2 were fewer total participants in the HEI Pilot. It may also be possible to reduce contract costs
3 by approximately \$7,000.

4 However, the recommended 25% decrease in “estimated in-house incremental labor
5 costs” will affect the scope and the implementation of the proposed HEI Pilot. The
6 approximately \$449,000, which makes up the 25% decrease, are both non-labor and labor
7 costs associated with planning, marketing/customer outreach and administration of the
8 program, and include both outside contractors and in-house employees necessary to plan,
9 design, implement and oversee the HEI Pilot. APS will need to hire a program manager, who
10 will have overall responsibility for all contractors involved in the implementation of the
11 program, as well as all internal efforts related to the HEI Pilot. There is a significant amount
12 of IT integration effort required to facilitate all of the HEI Pilot goals, as well as the budget
13 oversight, marketing and enrollment of customers, design of call center procedures, and
14 oversight on the physical dispatch of the demand response test events. Other APS employees
15 will also expend material portions of their time in support of the HEI Pilot, and they will
16 subsequently charge their time to the program.¹¹

17 Staff has indicated that one of the reasons for the recommended reduction in APS’s
18 estimated labor costs was based on a data response, where Staff understood that the Company
19 is planning to do less demand response software integration for certain components of the
20 HEI Pilot in the short term. However, APS believes that there may have been a
21 miscommunication, because the Company has neither modified its approach regarding the
22 relative integration efforts planned for the Prepay Program nor the other four program
23 elements since the time of filing in March 2010. The nature of a Prepay Program is such that
24 significant software integration has to occur, regardless of the number of participants.¹² As a
25 result, the Prepay Program was designed to be fully integrated and scalable to all customers.

26 _____
27 ¹¹ Their time will be allocated to the “Planning and Administration” category, consistent with other customer
28 programs, and not to base rates.

¹² Enabling this feature for 100 customers essentially requires the same amount of manpower as enabling that
feature for 100,000 customers

1 In contrast, APS designed the demand response and “smart home” elements of the HEI
2 Pilot to leverage third-party software hosting solutions that would lessen the integration touch
3 points with the APS back office IT systems. For these elements of the HEI Pilot, there will
4 still be some level of integration with the APS IT back office systems; however, the main
5 software needed to send control signals into the home can be owned and hosted by a third
6 party in lieu of APS making that investment itself. This allows the Company to minimize the
7 cost in the HEI Pilot while still gaining all of the learnings necessary to develop a full-scale
8 residential demand response program.

9 For these reasons, APS urges the Commission to adopt the proposed HEI Program
10 budget, as filed.

11 **Timing: the Availability of the Pilot Program**

12 Upon receiving Commission approval, APS will immediately begin the process of
13 implementing the HEI Pilot, including finalizing vendor contracts, integrating the necessary
14 software applications, and ordering the in-home devices that will be deployed. All software
15 integration must occur prior to installing devices in customers’ homes. While this work will
16 begin in earnest upon Commission approval, because the earliest such approval will occur is
17 mid-February, it is likely that deployment of in-home devices will not begin until the third
18 quarter of 2011.¹³

19 An important facet to the HEI Pilot is the ability to monitor the utilization of the
20 devices over two summer seasons to determine the persistence of customer interaction with
21 this new technology, and to provide more statistically relevant data on the energy and demand
22 savings from the program groups. As the technology is deployed later this year, APS will
23 make a determination on whether or not there will be enough sample data from 2011 to
24 satisfy the goals of the HEI Pilot. If additional time is required, APS will inform the
25 Commission of that fact through a subsequent filing.

26
27
28 ¹³ APS had initially expected that full deployment and operability would occur by the beginning of the summer of 2011, based on an anticipated October 2010 Commission decision.

1 Conclusion

2 For the reasons discussed above, APS respectfully requests that the Commission
3 approve the Prepay Program and HEI Program budget as filed.

4 RESPECTFULLY SUBMITTED this 11th day of February, 2011.

5
6 By: 
7 Deborah R. Scott
8 Attorney for Arizona Public Service Company
9

10 ORIGINAL and thirteen (13) copies
11 of the foregoing filed this 11th day of
12 February 2011, with:

13 Docket Control
14 ARIZONA CORPORATION COMMISSION
15 1200 West Washington Street
16 Phoenix, Arizona 85007

17 COPY of the foregoing emailed/mailed and/or
18 delivered this 11th day of February 2011, to:

19 Mona Tierney-Lloyd
20 Sr. Manager Western Regulatory Affairs
21 EnerNOC, Inc.
22 P.O. Box 378
23 Cayucos, California 93430

24 Daniel Pozefsky
25 RUCO
26 1110 West Washington, Suite 220
27 Phoenix, Arizona 85007

28 

EXHIBIT A

Arizona Public Service Company
Application for Approval of a
Residential Demand Response Pilot Program
Docket No. E-01345A-10-0075

Proposed Amendment #1

At Page 8, Line 1 INSERT New Finding of Fact:

“Notwithstanding Staff’s concerns, the Commission believes there is sufficient merit in moving forward with the Pre-Pay Option of the HEI Pilot program. Pre-pay programs are frequently requested by new customers, and there is strong evidence that these types of programs have increased customers’ awareness of their energy use, leading to reductions in their energy consumption. We believe that the Pre-Pay Option proposed herein by APS is correctly proposed as a DSM pilot. This pilot will be able to verify the energy savings that can be achieved as a result of this DSM offering. Therefore, we approve the inclusion of the Pre-Pay Option in the HEI Pilot as proposed by APS”

At Page 11, Line 8 AFTER “Home Energy Information Pilot Program” INSERT:

“including the Pre-Pay Option”

At Page 11, Line 9 INSERT New Ordering Paragraph:

“IT IS FURTHER ORDERED that Arizona Public Service Company is granted a waiver from A.A.C. R14-2-211 for the limited purpose of implementing the Pre-Pay Option of the HEI Pilot.”

At Page 11, DELETE Lines 18 and 19.

At Page 11, Line 21 AFTER “as discussed herein” INSERT:

“including costs associated with the Pre-Pay Option,”

Make all conforming changes.