ORIGINAL OPEN MEETING AGENDA ITEM

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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2011-2012 ENERGY EFFICIENCY IMPLEMENTATION PLAN.

DOCKET NO. E-01933A-11-0055

SUPPLEMENTAL COMMENTS TO STAFF'S PROPOSED ORDER

Tucson Electric Power Company ("TEP" or the "Company"), through undersigned counsel, hereby submits supplemental comments to the Proposed Order submitted in this docket by the Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission") on November 16, 2011 regarding TEP's 2011-2012 Energy Efficiency Implementation Plan ("2012 EE Plan"). Because this matter was not heard at the December 13-14 Open Meeting, TEP is providing: (i) updated information regarding the calculation of the Demand Side Management Surcharge ("DSMS") to reflect the time period over which it will now be collected and (ii) additional comment on how to address the potential recovery of lost revenues resulting from compliance with the Commission's Electric Energy Efficiency Rules ("EE Rules") in light of recent Commission actions related to lost fixed cost recovery.

A. Updated Calculation of the DSMS.

In its Exceptions filed on December 2, 2011, TEP proposed a correction to the DSMS set forth in the Proposed Order to reflect a 12-month collection period (assuming approval of the EE Plan in December with an effective date of January 1, 2012.) That correction was necessary because the Proposed Order had calculated the DSMS based on a 15-month collection period. However, it now appears that the EE Plan will be approved in January 2012. As a result, the EE Plan budget will likely be collected over an 11-month period. Therefore, the DSMS should be set based on the 11-month collection period. Should TEP's proposed EE Plan budget be adopted, then the DSMS would be $0.008119 per kWh. The actual amount of the DSMS, however, will depend on the 2012 EE Plan budget that is ultimately approved by the Commission.

B. Timely Recovery of Lost Fixed Cost Revenues.

In its Exceptions filed on December 2, 2011, TEP requested approval of a lost fixed cost recovery mechanism to support its compliance with the Commission's EE Rules. In the alternative, TEP sought a waiver of the EE Rules until such a mechanism is approved. TEP would prefer to move forward with its proposed 2012 EE Plan rather than the waiver. There are many public benefits by increasing energy efficiency, provided the confiscatory impacts are addressed. And, as explained in our Exceptions, the adverse impacts of pulling back on energy efficiency programs in the short term (*i.e.,* until after TEP's next rate case is concluded) can be avoided.

TEP believes that the Commission can approve a lost fixed cost recovery mechanism for TEP now in order to avoid the confiscatory effects of the EE Rules and does not have to wait for a future rate case to do so. TEP also wants to make it clear that it is proposing to recover lost fixed cost revenues related to Commission-approved DSM programs through TEP's existing DSM adjustor and that the amount of recovery is tied to the non-fuel revenue requirement set by the Commission in TEP's most recent rate case.

TEP currently has a DSM adjustor that was approved by the Commission in its last rate case. Decision No. 70628 (December 1, 2008). The DSM adjustor was intended to cover the "reasonable and prudent costs" of both the then-proposed *and* future Commission-approved DSM programs. (*See* 2008 TEP Rate Case Settlement Agreement, Section 9.7.) Indeed, it expressly contemplated potential new DSM programs.

The lost fixed cost revenues are a cost of the DSM programs that must be recovered to ensure that a DSM program is not confiscatory or a violation of the 2008 TEP Rate Case Settlement. Those costs could certainly be recovered through the existing DSM adjustor just as the other costs of the 2012 EE Plan will be recovered under Staff's proposal. The proposed Authorized Revenue Recovery True-up mechanism ("ARRT") is intended to recover the cost of lost fixed cost revenues resulting from the DSM programs necessary to meet the energy efficiency standards set in the Commission's EE Rules. Moreover, the ARRT is tied directly to the revenue requirement set by the Commission in the 2008 TEP Rate Case Settlement and related Commission Decision No. 70628.

As set forth in more detail in TEP's proposed 2012 EE Plan, the ARRT is calculated in a two-step process to ensure that it is tied to the revenue requirement set in TEP's last rate case. First, historical customer class energy savings, due to approved DSM programs, is compiled by a Measurement and Evaluation Report (required by the EE Rules). Second, the actual ARRT amount is calculated by multiplying the non-fuel-related variable rate already approved by the Commission in TEP's most recent rate case by the energy savings described above.[1]

The Commission will be able to ensure that the Company is not recovering more than its approved revenue requirement. This methodology is intended to recover only the lost fixed cost revenues resulting from implementation of Commission approved DSM measures – based on TEP's authorized revenue requirement – and will be used until the completion of TEP's next rate case.

Finally, recovery of lost fixed cost revenues through a pre-existing surcharge mechanism, such as the TEP DSM adjustor, is not unprecedented. It should be noted that the Commission just approved TEP's 2012 REST Plan that includes a provision allowing for the recovery of certain lost fixed cost revenues through the REST surcharge. The same approach is appropriate here to allow TEP to pursue the Commission's EE Rules mandates without suffering the confiscatory effects of compliance with those mandates.

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[1] The TEP non-fuel fixed costs rate elements are:

- Delivery Charges consisting of meter services, meter reading, billing and collection, service drop;
- Generation capacity including fixed must-run;
- Transmission capacity;
- Distribution capacity;
- Ancillary services consisting of system control and dispatch, reactive supply and voltage control, regulation and frequency response, spinning reserve service, and supplemental reserve service; and
- System benefits defined as Uncollectible.

C. Conclusion.

Tucson Electric Power Company would prefer to move forward with an energy efficiency program that is intended to meet the Commission's EE Rules. Therefore, TEP requests that the Commission adopt its 2012 EE Plan as proposed, including recovery of lost fixed revenues, and set the DSMS at a level to recover TEP's proposed budget assuming collection of the DSMS over an 11-month period.

However, as set forth in the Company's Exceptions, if the Commission declines to provide for recovery of lost fixed cost revenues related to compliance with the Commission's EE Rules mandates at this time, then TEP requests a waiver of the EE Rules until a lost fixed cost recovery mechanism is adopted.

Finally, if the Commission declines the waiver request, TEP requests an evidentiary hearing on its 2012 EE Plan.

RESPECTFULLY SUBMITTED this 5th day of January 2012.

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