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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

SWEEP COMMENTS ON THE TEP 2011-2012 ENERGY EFFICIENCY IMPLEMENTATION PLAN AND RECOMMENDED ORDER

COMMENTS OF THE SOUTHWEST ENERGY EFFICIENCY PROJECT

The Southwest Energy Efficiency Project ("SWEEP") appreciates the opportunity to submit comments in response to the Recommended Order filed by Staff on November 16, 2011, regarding Tucson Electric Power Company's ("TEP" or "Company") Application for Approval of its 2011-2012 Energy Efficiency Implementation Plan ("Plan").

SWEEP thanks Staff for its efforts in preparing the Recommended Order while diligently working in parallel on numerous other applications and proceedings. Staff's efforts are very much appreciated, and SWEEP commends Staff for several recommendations it has presented that will ensure that the EE programs are cost-effective, will be cost-efficiently implemented, and are harmonized across electric utility service territories.

SWEEP would also like to recognize the Company for its efforts to file a Plan in January 2011 and a revised Plan in August 2011, both in accordance with the cumulative annual energy savings requirements established by the Electric Energy Efficiency Standard for 2011 and 2012.

In an effort to pursue reasonable and effective compromises on challenging issues, SWEEP herein provides comments and suggests five amendments to the ROO, including two proposed amendments intended to address the lost fixed cost revenue and performance incentive issues TEP raised in its comments and exceptions. We believe that our comments address issues raised by the Company in a manner that will provide a reasonable path forward, providing significant benefits for customers while considering shareholder concerns.

SWEEP states at the outset that it strongly opposes the TEP-proposed waiver to the Energy Efficiency Standard. Energy efficiency is the least cost energy resource available and delivers significant and cost-effective benefits for all TEP customers, the electric system, the economy, and the environment. As such, it should be fully pursued.

In addition to SWEEP's comments on the Plan and recommended amendments below, SWEEP also seeks clarification from the Commission for which period TEP's Implementation Plan will apply (since the Plan was proposed as a 2011-2012 plan, and 2011 has now passed). In SWEEP's view, the 2012 details in the Plan and the programs originally proposed for approval in 2011 should apply to 2012 and possibly to 2013. SWEEP also recommends that TEP file a supplement to this Plan in the event that the approved programs and initiatives do not meet the requirements set forth in the Energy Efficiency Standard for 2012 and 2013. For example, while the Commission-approved programs should continue through 2013, TEP may need to file a supplement if the planned savings or budgets would need to be revised in order to meet the requirements of the Energy Efficiency Standard in 2013. (SWEEP notes that under the requirements of the Standard, the Company must file an EE implementation plan on or before June 1, 2013, in any event.)

In terms of 2011, the year is over, and SWEEP understands that TEP likely met the Energy Efficiency Standard through the existing programs and the new programs that the Commission approved in late 2010. The Company and Staff should clarify what Commission action, if any, is needed for approval of TEP's 2011 activities and budgets.

Finally, SWEEP recommends that the Demand-Side Management Surcharge (DSMS) be appropriately adjusted for whichever time period the Commission decides the Plan should apply.

I. SWEEP Supports Commission Approval of the Energy Efficiency Opportunities Found to be Cost-Effective by Staff and Believes These Opportunities:

A. Are Cost-Effective; in the Public Interest; and will Deliver Significant Benefits

B. Will Result in the Achievement of the 2011 and 2012 Energy Savings Requirements Set Forth in Electric Energy Efficiency Standard ("EE Standard")

C. Represent Enhancements that Will Serve More Customers; Provide Additional Opportunities for Customers to Save on Their Bills; Have Demonstrated Success in Other Territories; and Respond to Ratepayer Interests.

The proposed portfolio is cost-effective; will deliver cumulative annual energy savings greater than 300 GWh; and, according to the Company's initial filing, will deliver more than $130 million in net benefits in 2011 and 2012. The portfolio will also achieve the energy saving requirements set forth in the EE Standard for 2012 approximately equivalent to annual energy savings of 1.75% of retail sales.

The new and expanded cost-effective opportunities recommended for Commission approval will serve more residential and commercial customers and provide additional ways for these customers to reduce their energy bills and eliminate waste. For example:

- The proposed new measures for the Small Business Direct Install Program will provide small businesses with additional ways to address building inefficiencies and ultimately to maintain a healthy bottom line and gain a competitive edge.

- The proposed Schools Facilities Program will help schools in TEP's service territory to upgrade their facilities. This will improve the student-learning environment and enable schools to direct savings toward other building improvements and upgrades that further enhance learning.

- The proposed Multi-Family Housing Efficiency Program will provide conservation opportunities for renters, who are notoriously hard-to-engage due to an array of market failures and market barriers including principal-agent and split incentive challenges.

Proposed program enhancements and modifications incorporate strategies successfully implemented by other utilities including the Arizona Public Service Company (APS) and the Salt River Project (SRP):

- The Appliance Recycling Program is modeled after programs currently offered by SRP and APS. It will achieve cost efficiencies by leveraging the expertise and experience of JACO Environmental, which has worked with utilities across twenty-six states and operates a recycling facility in Phoenix that employs twenty-five people.

- The proposed Retro-Commissioning Program builds off the successful implementation of retro-commissioning work across the nation. The Lawrence Berkeley National Laboratory, which has assembled the world's largest compilation of commissioning experience in actual commercial buildings, found that retro-commissioning projects across 643 buildings have resulted in 16% median whole-building energy savings with a payback time of 1.1 years.[1] The Company's proposed program, available for commercial and industrial customers, would establish a systematic, forensic approach to improving existing building performance by ensuring that building systems meet their design intent and operate and interact optimally. In turn it would reduce the risk of new construction and major renovation projects and make certain that money is not wasted due to building deficiencies.

- The proposed Energy Codes Enhancement Program seeks to achieve cost effective energy savings that persist for decades at low cost by addressing barriers to building energy code adoption. The program mirrors one that SRP has successfully implemented in its territory and that is projected to achieve more than 100,000 MWh savings per year by 2016, and nearly half a million MWh savings by 2020.[2] TEP's program is also poised to build upon the work supported by the Governor's Office of Energy Policy in 2011, which resulted in the creation of the Southwest Building

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[1] "Capturing the Potential" by Evan Mills, Ph.D, published in ASHRAE Journal, February 2011.
[2] See "In Support of Clean & Efficient Energy: SRP Position on Model Energy Codes": http://www.srpnet.com/environment/earthwise/pdfx/spp/ModelEnergyCodes2011.pdf

Energy Code curriculum and the training of twenty building energy code trainers to deliver this curriculum to Arizona jurisdictions.

- The Bid for Efficiency Pilot Program, designed after an APS program, will spur market competition by engaging third parties to propose energy-saving projects and bid competitively for incentives.

TEP's Plan also includes important features in response to ratepayer requests:

- The proposed Residential Energy Financing Program will employ local lender Vantage West Credit Union. Use of this lender will produce significant budget reductions over the originally proposed program; was supported by customers and community groups (including PCIC) who actively encouraged and helped the Company to secure an Arizona-based lender; and will leverage resources available from the private capital in tandem with ratepayer money.

Finally, the Plan proposes to achieve cost efficiencies by leveraging partnerships with other entities:

- The proposed Combined Heat and Power Program will establish a partnership between the Company and Southwest Gas to promote increased development of CHP installations.

- The Low Income Weatherization Program, which coordinates with the Governor's Office of Energy Policy, will incorporate modifications to bring the program in alignment with federal eligibility levels for the Low-Income Home Energy Program (LIHEAP). These modifications will streamline the administrative process for Arizona's community action agencies that deliver weatherization and make the program available to more customers.

II. SWEEP Comments on the Recommended Order

SWEEP provides comments on several issues and recommends five proposed amendments below.

A. SWEEP Maintains that the Company Can and Should Meet Arizona's EE Standard and that Addressing Utility Financial Disincentives to the Adoption of Aggressive Energy Efficiency is Crucial for the Achievement of the EE Standard and its Associated Benefits. However, SWEEP Does Not Support the Company's Authorized Revenue Requirement True-Up Mechanism; Categorically Opposes the Company's Request to Waive the EE Standard's Requirements Until Financial Disincentives are Addressed; and Proposes that TEP Track Lost Fixed Cost Revenues as a Result of Its Monitored, Quantified, and Verified Energy Efficiency Programs and Seek Recovery of Lost Fixed Cost Revenues in its Next General Rate Case.

Arizona's EE Standard is in the public interest and the Company can and should meet the Standard's requirement of 22% energy savings by 2020.

SWEEP maintains that utility financial disincentives to the adoption of energy efficiency are crucial to address in order for the Standard and all of its associated benefits to be achieved. However, SWEEP is in agreement with Staff's recommendation set forth in the ROO (ROO, p. 68, lines 13-15). Specifically, we do not support the Company's proposed Authorized Revenue Requirement True-up Mechanism or "ARRT" on the grounds that:

- The most appropriate time to address financial disincentives to energy efficiency is in the Company's next general rate case as these disincentives (as lost fixed cost revenues) are an artifact and result of the traditional rate-making process and not due to energy efficiency in and of itself. The rate case process would also allow for other interested parties to participate and weigh in on how best to address financial disincentives.

- It does not adequately reduce the utility disincentive to energy efficiency. Consequently it will result in fewer opportunities for customers to reduce their energy bills and will create perverse incentives that could discourage the Company from adequately and fully supporting building energy codes; appliance efficiency standards; state initiatives; and state legislation; and

- It would likely result in contentious and protracted technical proceedings at the Commission (as has been the experience in lost revenue recovery mechanism proceedings in other states).

SWEEP is also in agreement with Staff regarding Staff's opposition to TEP's proposed waiver of the Energy Efficiency Standard (ROO, p. 68, lines 16-17). SWEEP strongly opposes the Company's proposal to waive the requirement of the EE Standard until disincentives are addressed. Energy efficiency (EE) and the EE Standard are in the public interest. EE, as the least cost energy resource that delivers significant and cost-effective benefits for all TEP customers, the electric system, the economy, and the environment, should be fully pursued in accordance with the cumulative energy savings requirements established by the EE Standard. SWEEP notes:

- EE is a reliable energy resource that is less expensive than other available energy resources. As such, increasing EE will save consumers and businesses money through lower electric bills and the deferral of unnecessary infrastructure, resulting in lower total costs for customers.

- Increasing EE reduces load growth; diversifies energy resources; enhances the reliability of the electricity grid; reduces the amount of water used for power generation; reduces air pollution; and improves the economy.

- Meeting a portion of load growth through increased EE helps to relieve system constraints in load pockets.

- By reducing electricity demand, EE mitigates electricity and fuel price increases and reduces customer vulnerability and exposure to price volatility.

- EE does not rely on any fuel and is not subject to shortages of supply or increased prices for natural gas or other fuels.

- EE creates local jobs that cannot be outsourced out of state.

In addition, EE is the only energy resource that must demonstrate cost-effectiveness before implementation.

Still, SWEEP thinks it is important to recognize the unique situation of the Company. Namely, due to a rate case stay out provision negotiated and agreed to by TEP as part of the settlement process in its last general rate case (Decision No. 70628, dated December 1, 2008), the Company is precluded from filing its next general rate case application until July 2012. As a result of the approved rate case settlement agreement, the earliest TEP can realize a decoupling or alternate mechanism to address financial disincentives and lost fixed cost revenues is January 2013.

SWEEP believes that the Commission should recognize this unique circumstance by allowing in the interim for TEP to track its estimates of lost fixed cost revenues as a result of its monitored, quantified, and verified energy efficiency programs, and seek recovery of lost fixed cost revenues in its next general rate case application to be filed in July 2012.

SWEEP has proposed an amendment as Attachment A in support of this concept.

B. SWEEP Supports a Performance Incentive as an Important Tool for the Delivery of Effective EE; Opposes the Company's Proposed Performance Incentive; and Proposes a Path Forward for the Development of a New Performance Incentive that Would Encourage Better Delivery of Cost-Effective EE.

EE performance incentives have been shown to be an important tool to encourage and steer effective delivery of cost-effective EE, and SWEEP supports appropriately designed performance incentives. In SWEEP's view an appropriately designed performance incentive:

1. Encourages the Company to pursue cost-effective EE and achieve other goals set by the Commission;

2. Is designed in such a way to avoid any perverse incentives;

3. Is based on clearly-defined goals and activities that are sufficiently monitored, quantified, and verified;

4. Is available only for activities for which the Company plays a distinct and clear role in bringing about the desired outcome; and

5. Is kept as low as possible while balancing and meeting the objectives and principles mentioned above.

SWEEP emphasizes that performance incentives are *performance-based*, meaning that the Company must perform and achieve the objectives in order to earn the incentive.

SWEEP does not believe that the Company's current performance incentive – a shared-savings performance incentive equal to 10% of the measured net benefits from eligible DSM programs (excluding Low Income Weatherization), capped at either 10% of net benefits or 10% of expenditures, whichever is less – meets these criteria.

SWEEP also does not support TEP's revised performance incentive proposed in the Implementation Plan because it does not adequately meet the criteria above and it directs too great a level of ratepayer monies to the Company.

SWEEP views performance incentives as an important policy instrument that the Commission should exercise to influence and direct energy efficiency outcomes. To that end, we believe it is critical for the Commission to be able to oversee performance incentive design during the energy efficiency implementation plan process, when new energy efficiency programs and initiatives are proposed, reviewed, and approved, and when energy efficiency policy is determined and implemented. In fact, SWEEP believes this was the Commission's intent when it adopted the following language in the Electric EE Standard Rule:

> "In the implementation plans required by R14-2-2405, an affected utility may propose for Commission review a performance incentive to assist in achieving the energy efficiency standard set forth in R14-2-2404. The Commission may also consider performance incentives in a general rate case." (R14-2-2411.)

SWEEP proposes that TEP work with stakeholders and Staff to develop and file for Commission consideration within 60 days of this order a new performance incentive that optimizes the connection between energy efficiency, rates, and utility business incentives and that creates a clear connection between the level of the performance incentive and achievement of cost-effective energy savings.

SWEEP recommends that the new performance incentive should:

(a) Encourage the achievement of energy savings and net benefits for customers through a base performance incentive with an eligible incentive level equivalent to 7% of net benefits on a pre-tax basis;

(b) Include new components and metrics, in addition to the base performance incentive, that emphasize increased comprehensiveness of EE program services provided to customers and result in higher percent savings, encourage cost-efficiency in the use of ratepayer funds (i.e., total net benefits to customers per dollar of ratepayer funding provided), and target the achievement of specific performance goals such as serving a targeted number of low income customers and/or issuing a specific targeted number of residential loans or a targeted total loan amount;

(c) Fund the additional performance incentive components and metrics in (b) above with $1.5 million of performance incentive funds (pre-tax) annually, or $3 million total for a two-year period, in addition to the eligible incentive level for the base performance incentive in (a) above; and

(d) Have an absolute dollar cap on the total incentive amount that the Company may earn, set at 115% of the eligible incentive level (determined at 100% of target performance), thereby not incenting increased program spending through the design of the performance incentive mechanism or its incentive cap.

SWEEP also recommends that the new performance incentive, including the $1.5 million of additional performance incentive funding annually, should remain in effect only until the effective date of the final order in the Company's next general rate case, and therefore the subsequent performance incentive should be redesigned either as part of the next general rate case or in the EE Implementation Plan process preceding the next general rate case.

SWEEP has proposed an amendment as Attachment B in support of this concept.

C. SWEEP Supports Allowing Energy Savings from Energy Efficiency Appliance Standards to Count Towards Achievement of the Energy Efficiency Standard.

SWEEP believes that the Commission should have all available tools at its disposal for the delivery of cost-efficient energy savings – especially tools that can deliver customer savings at low costs to ratepayers and that have the potential to reduce long-term EE program costs. By assuring a minimum level of EE performance for household and business products, appliance standards represent one such cost-effective tool that provides ratepayers, especially renters, tenants, and new homeowners, with the ability to save money and energy. Appliance standards are generally developed through a consensus process involving industry, manufacturers, and the business community. Once implemented, appliance standards can reduce the cost of utility EE programs, such as consumer products programs, by diminishing the need for or reducing the level of ratepayer-funded rebates over time.

As such, SWEEP believes that the Company should be allowed to count up to one-third of the energy savings resulting from energy efficiency appliance standards, if the energy savings are quantified and reported through a measurement and evaluation study undertaken by the Company, and the Company demonstrates and documents its efforts in support of the adoption or implementation of the energy efficiency appliance standards.

This approach and the language in the attached proposed amendment are consistent with the language in the Gas Energy Efficiency Rule, which explicitly allows savings from appliance standards to count towards achievement of the Gas EE Standard.[3]

SWEEP believes that one-third credit (versus one-hundred percent credit) toward these activities is warranted because this level of credit recognizes the fact that the appliance standard development and adoption process is complex and multi-faceted, involving many stakeholder efforts and multiple influences in addition to utility support and interaction, for example, during the development and consensus-building processes. Also, allowing one-third credit leverages the value for customers, resulting in customers receiving 100% of the benefits of the energy savings from the appliance standards in the marketplace, while providing utilities partial credit towards achievement of the EE Standard (which is reasonably consistent with the partial influence that the utilities have in the multi-party processes to develop and implement the standards).

SWEEP has proposed an amendment as Attachment C in support of this concept.

The proposed amendment includes proposed language for a waiver from the EE Standard Rule to allow the Company to count savings from appliance standards in 2012 and in future years. This is important in terms of sending the signal that the Company should be supporting appliance standards to help reduce customers' utility bills, and ensuring reasonable certainty regarding future credit for such efforts, as appliance standards have long lead times and often are developed several years in advance.

D. SWEEP Supports Budget Flexibility for Programs, Within an Overall Limit on Total DSM Spending.

SWEEP supports budget flexibility for the reasons below and recommends that the Commission permit *program* budget flexibility by allowing the Company to exceed any DSM program budget by up to 15 percent without prior Commission authorization.[4] If the Commission is concerned about the Company over-spending the total DSM budget, SWEEP believes the Commission could implement a limit on *total* DSM expenditures, for example, by directing that total expenditures may not exceed the total DSM budget by more than 5%, as proposed by Staff in the ROO (ROO, p. 68, lines 6-8).

[3] The Electric EE Rule in R14-2-2404(E) reads, "An affected utility may count toward meeting the standard up to one third of the energy savings, resulting from energy efficiency building codes, that are quantified and reported through a measurement and evaluation study undertaken by the affected utility." The Gas EE Rule in R14-2-2504(E) reads, "An affected utility may count toward meeting the energy efficiency standard up to one-third of the energy savings resulting from energy efficiency building codes and up to one-third of the energy savings resulting from the energy efficiency appliance standards, if the energy savings are quantified and reported through a measurement and evaluation study undertaken by the affected utility, and the affected utility demonstrates and documents its efforts in support of the adoption or implementation of the energy efficiency building codes and appliance standards."

[4] SWEEP has filed the same recommendation regarding 15% *program* budget flexibility in its comments on the APS 2012 EE Implementation Plan, to support consistency across the utility service territories.

Energy efficiency is a reliable energy resource that can be directed and targeted as needs arise with particular market segments or geographic areas. Energy efficiency budget flexibility supports this ability of energy efficiency to be targeted and responsive. For example, during an economic downturn, when fewer new homes are being built, money reserved for a residential new construction program can be reallocated to an existing homes program in response to market conditions.

Budget flexibility also ensures that programs can continue to operate if they are popular (rather than stopped and started and then stopped again as customer participation varies over time). And reasonable budget flexibility recognizes that customers are the ones making the decisions about whether, and if so, how and when they will participate. Therefore the Company does not have 100% control over the timing of the spending because customers are the ones making the final decisions, and this can be a particularly challenging issue near the end of a budget year. Programs that are very popular with customers may experience higher-than-planned expenditures, and the programs, which are offering cost-effective measures to customers, should continue to serve those customers under a reasonable level of budget flexibility.

In terms of *total* DSM expenditures, some level of flexibility is useful because the Company cannot predict in advance with 100% certainty exactly what customers are going to do exactly when any more towards the end of the budget period than the Company can predict at other times. Therefore, there should be some flexibility on total DSM expenditures as well, though the percentage for *total* budget flexibility could be lower (5% rather than 15%).

SWEEP has proposed an amendment as Attachment D in support of the concept of *program* budget flexibility.

The proposed amendment would permit *program* budget flexibility by allowing the Company to exceed any DSM program budget by up to 15 percent without prior Commission authorization, to support the beneficial flexibility at the program level in order to serve customers and respond effectively to customer interest. As noted above, the ROO already has proposed a limit on *total* DSM expenditures, proposing that the spending across all programs and activities in the DSM portfolio may not exceed the total DSM budget by more than 5% (ROO, p. 68, lines 6-8).

E. SWEEP Maintains that the Process for Analyzing and Reporting the Cost-Effectiveness of EE Opportunities Should be Modified to Ensure an Accurate and Full Understanding of the Costs and Benefits Associated with EE Programs and Investments in a Timely Manner. SWEEP Supports Engagement of an Independent, Third-Party Consultant to Advance These Objectives.

SWEEP strongly supports Staff and the Companies (TEP, APS, etc.) using one model and consistent input values for the cost effectiveness analysis of proposed and existing EE programs and opportunities. SWEEP also supports making the cost-effectiveness model and the input values available to the public.

Such synchronization and disclosure would be beneficial because it would:

- Boost transparency for both the EE plan development and review process and for the integrated resource planning process.

- Streamline the EE plan development and review process, providing customers with opportunities to save money on their bills sooner and freeing up time for Staff to focus on more strategic analysis of the EE plans.

- Allow other parties and market actors to propose and review enhancements or improvements to the EE plans more easily.

- Provide a consistent platform (one model) across the state for the evaluation and review of EE programs and opportunities. Given that the EE Standard is a statewide standard, it follows that a statewide model for EE analysis should be used – as is the practice in other states.

- Provide a platform and knowledge infrastructure that co-ops and smaller utilities could use, thereby reducing the administrative costs of these entities in the design of their energy efficiency programs.

SWEEP notes that the Companies and Staff often conclude that the same EE opportunities have different benefit-cost ratios. (In the vast majority of these cases the measures are shown to be cost-effective in both analyses even though the numbers are different). The Companies' values are sometimes greater than Staff's and vice versa. The fact that the Companies and Staff have found measures to be different in terms of cost-effectiveness has concerned SWEEP. Indeed, we feel that it is absolutely imperative to have an accurate and full understanding of the costs and benefits associated with any EE investment in order to ensure that ratepayer dollars are allocated as prudently and efficiently as possible, *especially* in light of Arizona's increasing investment in EE over the next decade and how this investment impacts resource planning.

Staff has recommended that in all future EE plans, the Company use the same input values and methodology as Staff (ROO, p. 69, lines 2-4). SWEEP's concern about Staff's recommendation is that it does not adequately resolve some of our concerns such as why the Companies' values are sometimes greater than Staff's and vice versa, or how energy efficiency should be treated during the integrated resource planning process. Further, the model that Staff has been using is fairly old and a new model should improve the usability of the model (thereby saving time) and increase the transparency of the analysis.

In order to develop one model and consistent input values that would ensure accurate and timely cost-effectiveness analysis and that address the concerns outlined above, SWEEP recommends that Staff retain an independent third-party consultant to assist a Staff-led working group, including the Companies and interested stakeholders, in:

a. Exploring effective options for cost-effectiveness analysis models

b. Selecting and securing one model to be used by the Companies and Staff for cost-effectiveness analysis

c. Resolving any differences in key input values used in the analysis, and

d. Documenting the key input values in a Technical Reference Manual to be updated by the Companies and filed with each EE Plan.

SWEEP believes that such a process would provide an invaluable opportunity for Commissioners and the public to gain a deeper and more thorough understanding of how EE investments are analyzed, evaluated and measured.

Many other states that have been increasing their EE programs and investments use one model or screening tool for the cost-effectiveness analysis, and support the analysis by maintaining a reasonably up-to-date Technical Reference Manual that documents the key input values – to serve the objectives of reliable numbers and internal consistency.

Notably, SWEEP has learned that technical assistance support and monies are available through the National Association of Regulatory Utility Commissioners (NARUC) SERCAT program or the U.S. Department of Energy's SEEAction Technical Assistance Program to support this exact kind of work.

SWEEP has proposed an amendment as Attachment E in support of this concept.

F. SWEEP Believes a Tier 2 Level for High-Performance Homes in the Residential New Construction Program Should be Cost-Effective, Consistent with the Findings of Staff's Analysis of a Similar Tier 2 Level for APS.

SWEEP is concerned about Staff's recommendation to discontinue Tier 2 (HERS Score of less than or equal to 70) in the residential new construction program (ROO, p. 65, lines 14-16). During these depressed economic times, nationally-recognized homebuilders including Meritage Homes, Pulte Homes, and Pepper-Viner Homes have leveraged this program to construct affordable and energy-efficient homes in the Tucson area. Indeed, from January to June 2011, 52 Tier 2 homes were completed in the TEP service territory. SWEEP notes that Commission Staff found a similarly designed tier for APS to be very cost effective (see comparison in the table below). *This suggests to SWEEP that it would be worthwhile for TEP and Staff to continue their analysis of APS' residential new construction tiers in order to see how TEP's program could be revised to provide a Tier 2 builder package that is cost-effective.*

Utility	Measure	Builder Incentive	Cost Effectiveness Ratio Found by Staff
APS	ENERGY STAR Version 3, HERS Score ≤ 60 (Tier 2)	$1,500 per home	1.39
TEP	ENERGY STAR Version 3, HERS Score ≤ 70 (Tier 2)	$1,500 per home	0.88

G. SWEEP Has Identified Cost-Saving Opportunities in Staff's Recommended Order and Recommends that These Monies Be Returned to Customers or Otherwise Be Utilized for Customer Benefit.

SWEEP has identified three potential cost-saving opportunities in the ROO:

<u>Appliance Recycling Program</u>

SWEEP agrees with Staff's recommendation that the incentive offered to customers for the Appliance Recycling program should be changed from the $35/unit proposed by the Company to $30/unit, in order to bring the program design in alignment with the programs offered by APS and SRP. This change frees up $27,000 that Staff recommended be reallocated to the program so an additional 900 customers can participate. SWEEP notes that the Company initially proposed to engage 5,400 customers through this program (or 1.5% of TEP's 365,000 residential customers), and an additional 900 customers would bring the total to 6,300 (or 1.7% of TEP's residential customers). It is instructive to compare these participation levels to those of APS (whose program is relatively new, having launched in February 2010) and SRP (whose program is well established, having launched in September 2008):

	APS	**SRP***
2010 Participants	8,066	10,018
2010 Participants as % of 2010 Residential Customers	~0.8%	~1.1%
2011 participants	~8,200**	11,440 (planned)
2011 Participants as % of 2010 Residential Customers	~0.8%	~1.3%

* Fiscal year data reported for SRP; percentage calculations assume 900,000 residential customers.
** Estimated by doubling reported participation levels from January – June 2011.

SWEEP believes it will be challenging for TEP to engage an additional 900 customers given the uptake of the APS and SRP programs. *We therefore recommend that the $27,000 be directed toward other opportunities to help customers save on their bills or not be spent (thus lowering the Demand Side Management Surcharge, or DSMS).*

Commercial and Industrial Comprehensive Program

Staff has recommended against approval of the inclusion of the LED Street and Parking Lights measure as part of the Commercial and Industrial Comprehensive Program. SWEEP found the cost effectiveness analysis information presented by both the Company and Staff a bit unclear. For example, the Company did not provide any cost effectiveness data for this measure in its initial application, and Staff did not report the results of its analysis. Additionally, in the past, when Staff has recommended that measures not be approved, Staff has recommended that the budget associated with these measures be reallocated. In this instance, no recommendation has been made to this effect. *SWEEP therefore recommends that TEP and Staff continue their analysis of this measure to determine its cost-effectiveness and report back to the Commission, and if the measure, through this additional analysis effort, is found to not be cost-effective, then the monies that would have been allocated toward this measure should be redirected toward other opportunities to help customers save on their bills or not be spent (thus lowering the Demand Side Management Surcharge, or DSMS).*

Energy Efficient Products, Residential LED Lighting

Based on its cost effectiveness analysis, Staff has recommended against approval of the Residential LED Lighting measure (apparently because of the high incremental cost of this new technology). Staff has further recommended that the monies associated with this measure be reallocated back to the Energy Efficient Products program (approximately $180,000, based on SWEEP's rough calculation). LEDs are a relatively new technology, the costs for LEDs have been declining, and the measure can be cost-effective in some applications. *Therefore, SWEEP recommends that TEP and Staff continue their analysis of this measure, with updated data and including a comparison to Staff's analysis of LED measures for other Arizona utilities, to determine its cost-effectiveness, and report back to the Commission.* If the updated analysis concludes that the LED measure is cost-effective, then it should be funded in the EE Products program. If the updated analysis shows that the measure is not cost-effective in any applications currently, then the ratepayer monies should not be used to fund the measure. In the latter situation (not cost-effective), it is unclear to SWEEP if the reallocation of funding to the EE Products program would be necessary, given the Company's projections to exceed the savings requirements of the EE Standard. *If this reallocation of monies is unnecessary for TEP's achievement of the EE Standard, SWEEP recommends that these monies not be spent (thus lowering the Demand Side Management Surcharge, or DSMS).*

H. SWEEP Suggests that a Compliance Filing by TEP may be Useful in this Case, Considering the Number of Issues Being Considered by the Commission.

SWEEP suggests that since there are many issues the Commission is considering in its review of this Implementation Plan, it may be useful to require TEP to prepare and file a compliance filing. Also, SWEEP recommended above (p. 2) that TEP should file a supplement to this Plan in the event that the approved programs and initiatives do not meet the requirements set forth in the Energy Efficiency Standard for 2012 and 2013.

Thank you for the opportunity to submit these comments.

Respectfully submitted this 9th day of January 2012 by:

Jeff Schlegel & Ellen Zuckerman
Southwest Energy Efficiency Project

ORIGINAL and thirteen (13) copies filed this 9th day of January 2012 with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

COPIES of the foregoing sent via email and/or mail on or before this 9th day of January 2012, to:

All Parties of Record

SWEEP COMMENTS – ATTACHMENT A
Tucson Electric Power Company
2011-2012 Energy Efficiency Implementation Plan
Docket No. E-01933A-11-0055

Proposed Amendment #1
Mechanism for Addressing Lost Fixed Cost Revenues

Page 68, Line 16

INSERT new ordering paragraph:

"IT IS FURTHER ORDERED that Tucson Electric Power Company may track its estimates of lost fixed cost revenues associated with the implementation of the Energy Efficiency Implementation Plan, and may seek recovery of lost fixed cost revenues in its next general rate case."

MAKE CONFORMING CHANGES

SWEEP COMMENTS – ATTACHMENT B

Tucson Electric Power Company
2011-2012 Energy Efficiency Implementation Plan
Docket No. E-01933A-11-0055

Proposed Amendment #2
Performance Incentive, Additional Incentive Components and Metrics, and Incentive Cap

Page 68, Line 9

INSERT new subheading and three new ordering paragraphs:

"*Performance Incentive*"

"IT IS FURTHER ORDERED that to ensure a performance incentive that optimizes the connection between energy efficiency, rates, and utility business incentives and that creates a clear connection between the level of the performance incentive and achievement of cost-effective energy savings, the Company shall work with Staff and other stakeholders to develop and file for Commission consideration a new performance incentive within 60 days of this order."

"IT IS FURTHER ORDERED that the new performance incentive shall: (a) encourage the achievement of energy savings and net benefits for customers through a base performance incentive with an eligible incentive level equivalent to 7% of net benefits on a pre-tax basis; (b) include new components and metrics, in addition to the base performance incentive, that emphasize increased comprehensiveness of EE program services provided to customers and result in higher percent savings, encourage cost-efficiency in the use of ratepayer funds (i.e., total net benefits to customers per dollar of ratepayer funding provided), and target the achievement of specific performance goals such as serving a targeted number of low income customers and/or issuing a specific targeted number of residential loans or a targeted total loan amount; (c) fund the additional performance incentive components and metrics in (b) above with $1.5 million of performance incentive funds (pre-tax) annually, or $3 million total for a two-year period, in addition to the eligible incentive level for the base performance incentive in (a) above; and (d) have an absolute dollar cap on the total incentive amount that the Company may earn, set at 115% of the eligible incentive level (determined at 100% of target performance), thereby not incenting increased program spending through the design of the performance incentive mechanism or its incentive cap."

"IT IS FURTHER ORDERED that the new performance incentive, including the $1.5 million of additional performance incentive funding annually, shall remain in effect only until the effective date of the final order in the Company's next general rate case, and therefore the subsequent performance incentive shall be redesigned either as part of the next general rate case or in the EE Implementation Plan process preceding the next general rate case."

MAKE CONFORMING CHANGES

SWEEP COMMENTS – ATTACHMENT C
Tucson Electric Power Company
2011-2012 Energy Efficiency Implementation Plan
Docket No. E-01933A-11-0055

Proposed Amendment #3
Energy Codes Enhancement Program – Including Appliance Standards

Page 67, Line 20

After "stated herein" INSERT:

", and the program shall be renamed the Energy Codes & Standards Enhancement Program."

Page 67, Line 21

INSERT new ordering paragraph:

"IT IS FURTHER ORDERED that Tucson Electric Power Company be granted a waiver from R14-2-2404(E) to allow the Company to count toward meeting the Commission's Energy Efficiency Standard in R14-2-2404, for 2012 through 2020, up to one third of the energy savings resulting from energy efficiency appliance standards, if the energy savings are quantified and reported through a measurement and evaluation study undertaken by the Company, and the Company demonstrates and documents its efforts in support of the adoption or implementation of the energy efficiency appliance standards."

MAKE CONFORMING CHANGES

SWEEP COMMENTS – ATTACHMENT D

Tucson Electric Power Company
2011-2012 Energy Efficiency Implementation Plan
Docket No. E-01933A-11-0055

Proposed Amendment #4
Budget Flexibility: Overall Limit for the Total EE Budget

Page 68, Line 6

INSERT new ordering paragraph:

"IT IS FURTHER ORDERED that Tucson Electric Power Company be allowed to exceed any DSM program budget by up to 15 percent without prior Commission authorization."

MAKE CONFORMING CHANGES

Note: The limit on total EE implementation expenditures (up to 5% higher than budget) is already in the TEP ROO in the subsequent ordering paragraph, which reads:
"IT IS FURTHER ORDERED that Tucson Electric Power Company shall be allowed to increase the overall Implementation Plan budget by up to 5 percent, if the increases are allocated to cost-effective measures and programs."

SWEEP COMMENTS – ATTACHMENT E

Tucson Electric Power Company
2011-2012 Energy Efficiency Implementation Plan
Docket No. E-01933A-11-0055

Proposed Amendment #5
Staff Review Process, Cost-Effectiveness Model, and Technical Reference Manual

Page 69, Line 3

After "Company" DELETE:

"use the same input values and methodology as Staff"

And INSERT:

"and Staff shall use consistent input values wherever feasible and the same methodology and model"

Page 69, Line 4

After "benefit-cost ratios" INSERT:

", while understanding that the Company is responsible for developing each Implementation Plan and filing the Plan application."

Page 69, Line 5

INSERT new ordering paragraph:

"IT IS FURTHER ORDERED that to ensure accurate and timely cost-effectiveness analysis through the use of one model and consistent input values, Staff shall retain an independent third-party consultant through the U.S. DOE SEEAction Technical Assistance Program or the NARUC SERCAT program, to assist a Staff-led working group, including the Company and interested stakeholders, in (a) exploring effective options for cost-effectiveness analysis models, (b) selecting and securing one model to be used by the Company and Staff for cost-effectiveness analysis, (c) resolving any differences in key input values used in the analysis, and (d) documenting the key input values in a Technical Reference Manual to be updated by the Company and filed with each DSM Implementation Plan."

MAKE CONFORMING CHANGES