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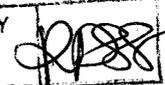
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## Memorandum

AZ CORP COMMISSION  
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JAN 10 2012

DOCKETED BY 

To: Commissioner Gary Pierce, Chairman  
Commissioner Bob Stump  
Commissioner Sandra D. Kennedy  
Commissioner Paul Newman  
Commissioner Brenda Burns

Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

From: Floyd Keneipp, Navigant Consulting, Inc.

Date: January 10, 2012

Re: *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*

Navigant Consulting, Inc (Navigant) strongly supports the timely approval of Tucson Electric Power's (TEP) 2011-2012 Energy Efficiency Implementation Plan (the Plan) and proposed Authorized Revenue Requirement True-up mechanism ("AART"). In its memo dated November 16, 2011, the Commission's Staff approved all of the programs submitted in the Plan with the exception of a few small measures the commission deemed not cost effective. This approved portfolio represents an investment of nearly \$25M in energy efficiency in 2012, of which more than \$21M are incentives to customers or providing the support to customers by building the business and operational infrastructure necessary to meet the Energy Efficiency Standard (the Standard). Navigant believes that the energy efficiency programs and initiatives presented in that plan represent a significant business investment by TEP and a benefit for ratepayers. In their original filing for approval of the 2012 portfolio plan, TEP indicated that ratepayers would save more than \$2.90 in savings for ratepayers for every \$1.00 in portfolio costs<sup>1</sup> based on Arizona's cost-effectiveness test. Navigant believes that TEP's request for recovery of fixed costs is prudent, reasonable, and necessary to ensure that energy efficiency becomes the viable resource intended by the Standard.

Navigant commends Arizona in establishing one of the highest Energy Efficiency Standard in the nation and is honored to have been a part of the team that designed programs offered by TEP to achieve the goals set forth in the Standard. To put the Standard in perspective, Figure 1<sup>2</sup> provides an Overview of Energy Efficiency Standard by state and shows that Arizona is one of 7 states in the nation where policymakers have asked utilities to save the

<sup>1</sup> IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2011-2012 ENERGY EFFICIENCY IMPLEMENTATION PLAN. Table 1-1, Summary Costs and Savings

<sup>2</sup> Turbocharging Energy Efficiency Programs • Mathias Bell • Brendan O'Donnell • Ryan Matley • Noel Crisostomo  
• Rocky Mountain Institute • October 2011

equivalent of cumulative 20% of energy sales through energy efficiency by 2020. Figure 2 shows that many states use either a revenue decoupling or lost revenue adjustment mechanism. Among states with these aggressive standards, Arizona is alone in providing neither option to TEP. There does not appear to be a solid rationale as to why TEP would be expected to undertake the costs and risks of achieving the standards without such a mechanism. It is also important to note that energy efficiency is a distributed resource and requires a significant amount of time and business infrastructure to deliver products and services and Navigant urges the Commission to act quickly in providing TEP with a reasonable mechanism to recover costs. Delays in implementing programs and providing TEP with a reasonable financial platform to operate energy efficiency initiative presents a risk that achieving the standard might be delayed, possibly for years. Any interruption in the significant efforts made by TEP to build their DSM practice will certainly result in a more costly portfolio later as contractors must be replaced due to lack of funding and institutional knowledge will be lost.

Figure 1. Overview of Energy Efficiency Standards by State

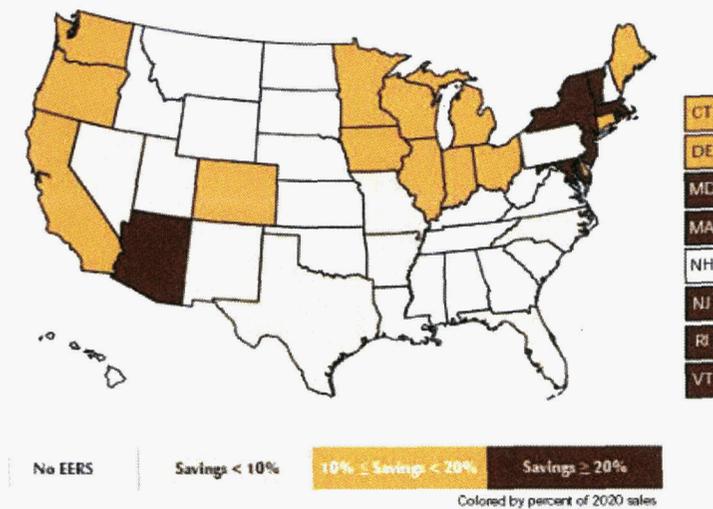
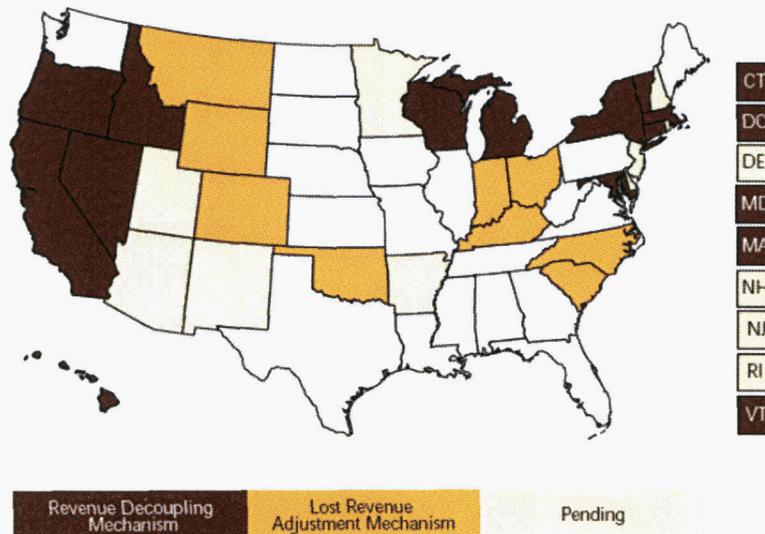


Figure 2. Overview of Energy Efficiency Cost Recovery Mechanism by State



Beginning in 2005, TEP began ramping up their DSM activities and in the 2006 – 2007 timeframe won approval of a comprehensive suite of 12 programs designed to provide a broad range of energy efficiency products and services to all customer markets sectors. This has been a success in that hundreds of local contractors representing a broad range of trades and skill have implemented thousands of projects with the help of TEP's DSM programs. This has been accomplished through TEP's consistent presence in the market and position as a trusted resource. The 2012 portfolio represents this same innovative approach but on the scale needed to meet the Standard. Navigant understands TEP's position that many of the program and initiatives outlined in the 2012 plan would need to be cut or reduced if there is no reasonable cost recovery mechanism for the 2012 portfolio. These include several key initiatives including:

- A new Appliance Recycling Program designed to remove and recycle inefficient working refrigerators and Freezers. Based on Staff's analysis, this program yields \$2.91 per refrigerator recycled for every \$1.00 of program costs
- A new retro-commissioning program that would save an average of 10% on commercial building energy costs through training and engineering support provided to building operators. Staff has determined that this program would yield a benefit of \$2.30 for every \$1.00 of program costs
- A school facility program intended to increase participation in a market segment that has historically been underserved. Staff has indicated that that \$1.71 in customer savings is a reasonable expectation for every \$1.00 spent on this program
- A Combined Heat and Power Pilot Program with a benefit-cost ratio of 6.5 based on staff analysis

Based on TEP's track record of good innovation in the market, good faith efforts to support the needs of both the customers and the local contractor community, Navigant urges the Commission to approve TEP's request to approve the Revenue Requirement True-up mechanism to recover lost fixed costs and undertake the level of activity needed to meet the Standard.

Sincerely,

Floyd Keneipp  
Managing Director

Original and 13 copies of the foregoing  
filed this 10<sup>th</sup> day of January 2012 with:

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January 10, 2012  
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