



0000135204

COMMISSIONERS
GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL
2012 MAR 15 PM 4:15

Arizona Corporation Commission
DOCKETED
MAR 15 2012
DOCKETED BY [Signature]

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 REVISED COMMENTS ON THE
STAFF UPDATE ON THE TUCSON
ELECTRIC POWER COMPANY'S 2012
MODIFIED ENERGY EFFICIENCY
IMPLEMENTATION PLAN**

REVISED COMMENTS OF THE SOUTHWEST ENERGY EFFICIENCY PROJECT

1 The Southwest Energy Efficiency Project ("SWEEP") appreciates the opportunity to submit
2 *revised* comments in response to the Staff Update filed on February 29, 2011, regarding Tucson
3 Electric Power Company's ("TEP" or "Company") 2012 Modified Energy Efficiency
4 Implementation Plan ("Modified Plan") filed in this docket on January 31, 2012. Initially,
5 SWEEP filed comments on the Modified Plan on March 12, 2012. SWEEP's revised comments
6 herein replace in their entirety SWEEP's March 12 initial comments.

7
8 In an effort to pursue reasonable and effective compromises on challenging issues, SWEEP
9 provides the following comments on the Staff Update and ROO. We believe that our comments
10 address issues raised by the Staff, Company, and stakeholders in a manner that will provide a
11 reasonable path forward, providing significant benefits for customers while considering TEP
12 shareholder concerns.

13
14 SWEEP states at the outset that it strongly opposes any waiver of the Energy Efficiency Standard
15 in this proceeding. Energy efficiency is the least cost energy resource available and delivers
16 significant and cost-effective benefits for all TEP customers, the electric system, the economy,
17 and the environment. As such, it should be fully pursued.

18
19 **I. SWEEP Supports the Modified Plan as a Framework that Enables Delivery of**
20 **Existing and New Cost-Effective Opportunities that Help Customers Save Money and**
21 **Energy.**

22
23 SWEEP supports the Modified Plan's programs and budgets. The Modified Plan will:

- 24
25 1. Continue existing cost-effective programs that help ratepayers save money and energy.
26 Existing programs reduce customer bills, lower total customer costs, create local jobs,
27 and deliver significant consumer and economic benefits.
28

- 1 2. Launch new cost-effective programs and offerings that deliver customer savings.
2 New opportunities will serve more customers (including small business owners; renters;
3 and schools) and provide new ways for customers to save money and energy.
4 Additionally, new offerings were developed after years of work by TEP ratepayers
5 (including the forty religious institutions that comprise the Pima County Interfaith
6 Council); have the strong support of TEP ratepayers (as evidenced by the hundreds of
7 handwritten and email communications the Commission has received in this docket and
8 the public comments made at the open meeting on January 10-11, 2012); and have been
9 successful in other Arizona electric utility service territories.

10
11 New cost-effective energy efficiency programs and offerings made possible by the Plan include:

- 12
13 • The Schools Facilities Program, which will help schools upgrade their facilities, enabling
14 them to direct monetary savings toward other improvements that enhance learning.
15
16 • The Multi-Family Housing Efficiency Program, which will provide renters, who are
17 notoriously hard-to-engage due to an array of market failures, with opportunities to save.
18
19 • The Residential Energy Financing Program, which will employ local lender Vantage
20 West Credit Union to leverage private capital with ratepayer money to help residents
21 implement additional efficiency measures.
22
23 • The Retro-Commissioning Program, which will help commercial and industrial
24 customers improve existing building performance.
25
26 • New energy efficiency measures for small businesses through the Small Business Direct
27 Install Program.
28
29 • The Bid for Efficiency Pilot Program, which will spur market competition by engaging
30 third parties to propose energy-saving projects and bid competitively for incentives.
31
32 • The Appliance Recycling Program, modeled after programs currently offered by the Salt
33 River Project (SRP) and the Arizona Public Service Company. And,
34
35 • The Energy Codes Enhancement Program, mirrored after a successful SRP program that
36 is projected to achieve nearly half a million MWh savings by 2020.¹
37

38 **II. In the Spirit of Compromise, SWEEP is Willing to Support the Modified Plan (with**
39 **Some Issues Addressed as Recommended Below), with the Proposed Performance**
40 **Incentive, and Agree to a Lower Level of EE Program Funding and an Equal Percent**
41 **Allocation of the Demand Side Management Surcharge. SWEEP's Position is**
42 **Completely Unique to this Case and is in No Way Precedent Setting.**
43

44 The Modified Plan contemplates mutual concessions. It represents a product developed through
45 many hours of conversations between the Company, Staff, RUCO, Freeport McMoRan Copper
46 & Gold, Inc. ("Freeport"), Arizonans for Electric Choice and Competition (AECC), and SWEEP.

¹ See "In Support of Clean & Efficient Energy: SRP Position on Model Energy Codes":
<http://www.srpnet.com/environment/earthwise/pdfx/spp/ModelEnergyCodes2011.pdf>

1
2 In the spirit of compromise, SWEEP is willing to agree to and support a lower level of program
3 funding than was originally proposed by the Company and Staff.² In addition, SWEEP is willing
4 to agree to an equal percent allocation of the Demand Side Management Surcharge. As a matter
5 of principal, SWEEP would not normally compromise on either of these two points; and we
6 stress that our position is completely unique to this case and is in no way precedent setting.
7 SWEEP's position in this case simply reflects a desire on SWEEP's part to forge and support a
8 compromise that balances the various interests, while also working vigorously to ensure that
9 consumers have adequate opportunities to reduce their utility bills.

10
11 SWEEP also appreciates the efforts of the Company and the stakeholders to negotiate a
12 compromise that continues existing cost-effective programs, launches new cost-effective
13 programs and offerings, and provides for an overall portfolio that should achieve the energy
14 savings requirements set forth by the Electric Energy Efficiency Standard for 2012.

15
16 **III. From the Filings in the Docket, It is Clear that Several Issues Must be Addressed.**
17 **SWEEP Provides the Following Comments and Recommendations on These Issues.**

18
19 *1. Because Staff and TEP Provide Widely Varying Estimates of Net Benefits, SWEEP Proposes*
20 *Using Annual Energy Savings as the Basis for the Performance Incentive Rather than Net*
21 *Benefits.*

22 Staff and TEP have calculated and proposed widely-varying estimates of net benefits, apparently
23 based on different models, methods, assumptions, and input values. In a separate comment
24 further below, SWEEP proposes an approach for resolving the differences in cost-effectiveness
25 analysis and the determination of net benefits, which remains a challenging issue that should be
26 addressed during 2012 in the manner SWEEP proposes. But an immediate issue is the need for
27 reasonable certainty in the basis of the performance incentive in the Modified Plan.

28
29 To address this immediate issue, SWEEP proposes *substituting* annual energy savings for net
30 benefits as the basis for the 2012 performance incentive. There is much agreement between Staff
31 and TEP on annual energy savings, both in planning and reporting – therefore annual energy
32 savings as a basis for the 2012 performance incentive provides reasonable certainty.

33
34 SWEEP recommends setting the target performance incentive at 100% of the energy savings set
35 forth in the Modified Plan (in an equivalent manner to how net benefits were proposed originally
36 as the basis), with a target performance incentive amount of \$7,246,379 – consistent with the
37 100% target incentive amount proposed in the Modified Plan. In that manner, if TEP achieved
38 100% of the annual energy savings set forth in the Modified Plan, TEP would earn a
39 performance incentive at 100% of the target incentive, equal to \$7,246,379.

40
41

² In its original filing, the Company proposed \$27.5 million in spending for 2012. In its original Recommended Order, Staff recommended \$24.7 million in spending. The Modified Plan proposes 2012 program funding at \$18.5 million.

1 2. SWEEP Believes that a Threshold Level of Performance Must be Demonstrated in Order for
2 TEP to Earn a Performance Incentive. The 80% Level of the Performance Incentive Should
3 be a Threshold, Not a Floor.

4 SWEEP emphasizes that performance incentives should be performance-based, meaning that the
5 Company must perform and achieve specified objectives in order to earn a financial incentive.
6 We therefore agree with Staff: a threshold-level of performance must be demonstrated in order
7 for TEP to earn an incentive. SWEEP proposes an 80% performance level threshold, whereby
8 TEP is eligible to earn an incentive for any one incentive or performance metric once 80%
9 achievement of that metric has been achieved. The 80% threshold level incentive would be
10 \$5,797,103. Thereafter, the Company should be able to achieve a higher level of incentive in
11 tandem with its performance, up to the established cap (see next section below). Note that by
12 using annual energy savings as the basis for the performance incentive, as proposed by SWEEP
13 above, the threshold would be based on 80% of the target annual energy savings.
14

15 3. SWEEP Supports A Hard Dollar Cap on the Interim Performance Incentive at 120% of
16 Target Annual Energy Savings (as the Modified Plan Proposes but with Energy Savings as
17 the Basis) and a Cap on Each Performance Metric at 120%

18 SWEEP supports a hard-dollar cap on the interim performance incentive at 120% of annual
19 energy savings (as the Modified Plan proposes but with energy savings as the basis) and a cap on
20 each performance metric at 120%. The total 120% incentive at the cap if each and every
21 incentive and metric was achieved at the 120% level would be \$8,695,655. However, SWEEP
22 believes it is very unlikely for TEP to approach this cap, due to the lower level of EE program
23 funding proposed in the Modified Plan and the commensurately lower level of energy savings
24 that will be achieved. This cap addresses the concerns that Commissioners have raised from the
25 bench about the incentive cap in the current performance incentive, which is set as a percent of
26 spending, encouraging TEP to increase spending to achieve a higher performance incentive.
27

28 4. SWEEP Maintains that the Timeframe for the Interim Performance Incentive Must be
29 Defined, and that the Savings Requirements Set Forth by the Electric Energy Efficiency
30 Standard for 2013 Must be Achieved

31 SWEEP supports the performance incentive in the Modified Plan as an interim incentive only
32 and one that is not precedent setting. To that end, the timeframe of the interim performance
33 incentive must be defined: it should remain in effect only until the effective date of the new rates
34 approved in the final order in the Company's next general rate case. Therefore, the Company
35 should propose in a 2013 Energy Efficiency Implementation Plan filing a new performance
36 incentive that will be in place no later than the effective date of new rates set during the next rate
37 case. This filing should also propose any new energy efficiency programs or program
38 enhancements needed for achievement of the energy savings requirements set forth in the
39 Electric Energy Efficiency Standard Rule for 2013.
40

41 5. SWEEP Supports Retention of an Independent, Third-Party Consultant to Resolve the
42 Different Estimates on Net Benefits

43 SWEEP understands that Staff and the Company differ in their current calculations of net
44 benefits and have been unable to resolve or reconcile some differences with respect to
45 methodology and inputs. SWEEP notes (and discusses further below) that in January 2012, in the
46 UNS Electric proceeding, the Commission ordered Staff to seek to retain an independent, third-
47 party consultant to assist Staff and other interested stakeholders in exploring effective options for
48 cost-effectiveness analysis models and resolving any differences in key input values used in the
49 cost-effectiveness analysis. SWEEP recommends that this same independent third-party

1 consultant be used to resolve any outstanding issues surrounding the net benefits calculation in
2 order to set the target level for the net benefits performance metric. Before year-end 2012 the
3 Company should file with the Commission a compliance filing to address this unresolved issue.
4 The Company should also file for a DSMS reset in April 2013 that will include a true up of the
5 performance incentive and any under- or over-collection in the DSM bank balance.
6

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

12 SWEEP strongly supports Staff and the Companies (TEP, APS, etc.) using one model and
13 consistent input values for the cost effectiveness analysis of proposed and existing EE programs
14 and opportunities. SWEEP also supports making the cost-effectiveness model and the input
15 values available to the public.
16

17 In order to develop one model and consistent input values that would ensure accurate and timely
18 cost-effectiveness analysis and that address the concerns and unresolved issues, SWEEP
19 recommends that Staff retain an independent third-party consultant to assist a Staff-led working
20 group, including the Companies and interested stakeholders. Specifically, consistent with the
21 Commission's order in the UNS Electric proceeding, Staff should retain an independent third-
22 party consultant through the U.S. DOE SEEACTION Technical Assistance Program or the
23 NARUC SERCAT program, to assist a Staff-led working group, including the Company and
24 interested stakeholders, in (a) exploring effective options for cost-effectiveness analysis models,
25 (b) selecting and securing one model to be used by the Company and Staff for cost-effectiveness
26 analysis, (c) resolving any differences in key input values used in the analysis, and (d)
27 documenting the key input values in a Technical Reference Manual to be updated by the
28 Company and filed with each EE Implementation Plan.
29

30 **IV. SWEEP Strongly Opposes Freeport's Proposal to Exempt Itself from the Electric** 31 **Energy Efficiency Standard** 32

33 SWEEP strongly opposes Freeport McMoRan's proposal to exempt itself from doing its fair
34 share to contribute to a lower cost, more reliable electric utility system for all customers. SWEEP
35 notes that a reasonable option for the mines to "self-direct" their energy efficiency investments
36 already exists and has been in place and working effectively for several years. In fact, the mines
37 themselves, through AECC, proposed this "self-direction" option and worked with SWEEP and
38 others to develop it, as a compromise in earlier proceedings. AECC and SWEEP jointly
39 supported this option before the Corporation Commission and the Commission adopted it. The
40 self-direction system also uses independent verification, so that we know that reported savings
41 are documented accurately. To plan for an energy system that meets customers' needs reliably at
42 lowest cost, the Commission, utilities, and stakeholders must understand how much energy our
43 state uses and saves. This includes understanding how much Freeport uses and saves.
44

45 The current system of self-direction, proposed by the mines through AECC, is the reasonable
46 compromise with the mines that allows Freeport to "self-direct" its contributions to EE program
47 funding into energy-saving projects in its own facilities, while independently verifying and
48 documenting the savings for system-wide planning and reporting. Freeport has been self-
49 directing its EE investments in the APS service territory.

1
2 If the Commission decides to grant Freeport an exemption, despite SWEEP's opposition, then
3 SWEEP supports, with the word "efficiency" inserted (shown as underlined below), the criteria
4 that Freeport proposed in its comments, i.e., that the retail customer must spend at least \$10
5 million annually on company-wide energy efficiency related programs, and take service at a
6 voltage threshold of 46kW or above. Without the word "efficiency" inserted, Freeport's criteria
7 are too broad and too vague, e.g., any company with a \$10 million company-wide energy bill
8 could claim that it was spending on "energy related programs" just by paying its energy bills.
9

10
11 Thank you for the opportunity to submit these revised comments.
12

13
14 Respectfully submitted this 15th day of March 2012 by:
15

16
17 _____
18 Jeff Schlegel & Ellen Zuckerman
19 Southwest Energy Efficiency Project
20

21 ORIGINAL and thirteen (13) copies
22 filed this 15th day of March 2012 with:
23

24 Docket Control
25 ARIZONA CORPORATION COMMISSION
26 1200 West Washington Street
27 Phoenix, Arizona 85007

28 COPIES of the foregoing sent via email and/or
29 mail on or before this 15th day of March 2012, to:
30 All Parties of Record