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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

**TUCSON ELECTRIC
POWER COMPANY'S
PROCEDURAL COMMENTS**

Tucson Electric Power Company ("TEP" or the "Company"), through undersigned counsel, hereby submits comments on the upcoming hearing in this docket. As TEP stated at the April 11, 2012 procedural conference, TEP is prepared to have an evidentiary on its Modified Implementation Plan filed on January 31, 2012 ("Compromise Plan"), but that the passage of time has created the need to update that plan as filed. Therefore, TEP has updated the Compromise Plan to reflect the reality of the current situation from a timing perspective and to address the concern raised by AECC. This updated implementation plan ("Updated Plan," attached as Exhibit A) reflects a plan that would commence on October 1, 2012 and provide a more robust "bridge" implementation plan for TEP's customers than maintaining the status quo over a protracted period of time.

In order to provide sufficient notice to the Commission and the parties in this docket, TEP intends to propose the attached Updated Plan at the evidentiary hearing. TEP understands that other parties may want to address additional issues concerning TEP's energy efficiency implementation, and they should be allowed to do so. However, if the Commission is not prepared to consider the Updated Plan and wishes to address such issues as adoption of an appropriate lost fixed cost recovery or other decoupling mechanism in this docket, then TEP believes that the energy efficiency plan issues should be considered in TEP's upcoming rate

1 case. If the Commission desires to address more generic issues that could affect all Arizona
2 utilities, such as the proper cost/benefit analysis for energy efficiency programs, then TEP believes
3 such issues should be conducted in a generic docket or in a rulemaking proceeding, as these issues
4 would impact all Affected Utilities.

5 **A. Updated Plan.**

6 TEP still believes that there would be significant benefit to having a more robust energy
7 efficiency implementation plan in place before the conclusion of TEP's next rate case. However,
8 there are several practical and legal hurdles that have been identified in this docket. TEP's
9 Updated Plan is intended to address those issues. Moreover, the Updated Plan is intended to cover
10 a period of October 1, 2012 through December 31, 2013. Both AECC and RUCO have reviewed
11 the Updated Plan and fully support this proposal.

12 The Updated Plan:

- 13 • Adopts the programs recommended for approval by Commission Staff, but at a
14 funding level that is 75% of the amount recommended by Staff;
- 15 • Does not incorporate the Authorized Revenue Recovery True-up ("ARRT")
16 mechanism or any other decoupling mechanism;
- 17 • Adopts a reduced interim performance incentive that encourages increased program
18 benefits and results:
- 19 • Sets a budget for the period of October 1, 2012 to December 31, 2013 at
20 \$27,894,412;
- 21 • Sets the Demand Side Management Surcharge ("DSMS") at \$0.002497 per kWh
22 for residential customers and at a 2.86% rate on all charges (except taxes and other
23 governmental assessments) for all other customer classes. This DSMS rate results
24 in incremental average bill impacts ranging from 1.17% to 1.71% for the various
25 customer classes.

26 This Updated Plan allows TEP to increase its energy efficiency programs well before the
27 conclusion of its upcoming rate case, providing a smoother ramp up of programs and costs needed

1 to try to meet the Commission's Energy Efficiency Standard. The Update Plan also represents a
2 compromise position that still provides net benefits to all customers, provides programs for
3 customers to reduce their electric bill, provides stability to the DSM market place, and provides a
4 bridge mechanism to TEP's next rate case, where lost fixed cost recovery can be synchronized
5 with TEP's future implementation plans.

6 **B. Consolidation with Upcoming Rate Case.**

7 TEP is concerned that consideration of all potential implementation plan options could
8 result, at the end of the day, with: (i) an implementation plan that would be confiscatory without
9 lost fixed cost recovery and (ii) legal issues regarding such recovery that certain parties believe
10 must be addressed in a rate case. If that is the likely result, then TEP agrees with Staff that this
11 docket should be consolidated with the rate case. However, such a result will delay further energy
12 efficiency implementation in TEP's service area until the second half of 2013, at the earliest.

13 WHEREFORE, TEP requests that any evidentiary hearing in this docket address the
14 Updated Plan and whether it is appropriate to adopt the Updated Plan (effective as of October 1,
15 2012) or to consolidate this docket with the upcoming rate case.

16 RESPECTFULLY SUBMITTED this 2nd day of May 2012.

17 Tucson Electric Power Company

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19 By 

20 Michael W. Patten
21 One Arizona Center
22 400 East Van Buren Street, Suite 800
23 Phoenix, Arizona 85004

24 and

25 Bradley S. Carroll, Esq.
26 Tucson Electric Power Company
27 88 East Broadway Blvd., MS HQE910
P. O. Box 711
Tucson, Arizona 85702

Attorneys for Tucson Electric Power Company

1 Original and 13 copies of the foregoing
2 filed this 2nd day of May 2012 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copy of the foregoing hand-delivered/mailed
8 this 2nd day of May 2012 to:

9 C. Webb Crockett
10 Patrick J. Black
11 Fennemore Craig, PC
12 3003 North Central Avenue, Suite 2600
13 Phoenix, Arizona 85012
14 Attorneys for Freeport-McMoRan and AECC

15 Timothy Hogan
16 Arizona Center for Law
17 in the Public Interest
18 202 East McDowell Road, Suite 153
19 Phoenix, Arizona 85004

20 Daniel Pozefsky, Chief Counsel
21 Residential Utility Consumer Office
22 1100 West Washington, Suite 220
23 Phoenix, Arizona 85007

24 Jane Rodda, Esq.
25 Administrative Law Judge
26 Arizona Corporation Commission
27 400 West Congress
Tucson, Arizona 85701

Charles Hains, Esq.
Scott Hesla, Esq.
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Steve Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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26
27 By 

"A"

EXHIBIT

Tucson Electric Power

Updated Modified Plan for TEP's 2012-2013 EE Plan

The changes in this updated modified plan ("Updated Plan") are updates to the Modified Implementation Plan (filed January 31, 2012) ("Compromise Plan") due to anticipated timing of approval of the Updated Plan and subsequent program performance. The numbers in the Updated Plan are calculated based on an assumed implementation plan start date of October 1, 2012.

1. TEP DSM program budgets.

In the Compromise Plan, TEP and parties agreed to reduce its 2012 proposed \$24.7 million program budget by 25%, to \$18.5 million. The updated modified plan would spread the \$18.5 million in DSM program budgets over a 15 month period to cover an assumed start date of October 1, 2012 through December 31, 2013. Specific program budgets are shown in Table 1.

TEP will not meet the EEES for either 2012 or 2013 under the Updated Plan and will need a waiver from the EEES for 2012 and 2013.

2. 2013 Implementation Plan.

TEP will request a waiver of filing its 2013 Implementation Plan as the Updated Plan will encompass 2013.

3. The unrecovered balance will be collected over a 15 month period.

TEP estimates there will be an unrecovered balance as of September 30, 2012 totaling \$6.1 million related to the period 2008 - 2011. This balance includes \$3.9 million of unrecovered program costs, the 2010 performance incentive of \$1.1 million and the 2011 performance incentive of \$1.1 million.

4. TEP will implement an updated revised interim 2012 Performance Incentive titled "Energy Efficiency Shared Benefits."

As an interim Performance Incentive titled "Energy Efficiency Shared Benefits" until a replacement is approved in the rate case, TEP will implement a methodology similar to one suggested by SWEEP. This incentive includes two components, a base amount calculated as 7.0% of net benefits and an additional amount based on other key metrics.

This updated proposal reduces TEP's requested performance incentive from \$7.2 million in the compromise plan to \$3.3 million for the year 2012, with a floor of \$2.6 million and a ceiling of \$3.9 million. The Energy Efficiency Shared Benefits will be trued-up in the 2012 rate case proceeding. See Table 3 for details.

5. TEP reduces its requested DSMS.

TEP will decrease its requested DSMS from \$0.003608 per kWh (in the Compromise Plan) to \$0.002497 per kWh for residential customers and to a 2.86% rate for all other customer classes (in the Updated Plan). The rate has been adjusted to reflect recovery of a 15 month timeframe. Table 2 sets forth a comparison of the overall budgets of the Compromise Plan and the Updated Plan. Table 4 shows the average incremental increases and bill impacts by customer class. These DSMS rates will remain in effect until changed by further order of the Commission.

TABLE 1: TEP Program Budgets (Oct. 2012 – Dec. 2013)

Program	Cost
Efficient Products	\$2,453,253
Appliance Recycling	\$755,095
Res. New Construction	\$1,011,949
Existing Homes and Audit Direct Install	\$2,304,525
Shade Tree	\$250,681
Low Income Weatherization ⁽¹⁾	\$526,464
Multi-Family	\$181,565
Residential Direct Load Control - Pilot	\$167,864
Residential Subtotal	\$7,651,396
C&I Comprehensive Program	\$3,728,462
Commercial Direct Load Control	\$1,431,445
Small Business Direct Install	\$2,044,806
Commercial New Construction	\$515,702
Bid for Efficiency - Pilot	\$388,846
Retro-Commissioning	\$336,493
Schools Facilities	\$170,049
CHP Joint Program - Pilot	\$22,000
Commercial Subtotal	\$8,637,804
Home Energy Reports	\$699,197
Behavioral Comprehensive Program	\$724,151
Behavioral Subtotal	\$1,423,349
Education and Outreach	\$155,250
Residential Energy Financing	\$315,405
Codes Support	\$73,288
Program Development, Analysis and Reporting Software	\$276,115
Support Subtotal	\$820,058
Total	\$18,532,606

TABLE 2: TEP 2012-2013 Overall Budget Comparison

	Compromise Plan (March 2012- December 2013)	Updated Plan (October 2012 - December 2013)
Budget		
2012 Program Budget	\$18,532,606	
2013 Program Budget	\$18,532,606	
2012 - 2013 Program Budget (10/1/12 start date) ⁽¹⁾		\$18,532,606
Carry Over Balance	\$5,614,113	\$3,861,556
2010 Performance Incentive	\$1,114,648	\$1,114,648
2011 Performance Incentive	\$1,101,749	\$1,101,749
2012 Performance Incentive	\$7,246,379	\$3,283,854
2013 Performance Incentive	\$7,246,379	TBD in Rate Case
Total	\$59,388,980	\$27,894,412
Tariff		
2012-2013 Forecasted MWh (22 months)	16,461,914	
2012-2013 Forecasted MWh (15 months)		11,170,724
Residential Tariff (per kWh)	\$0.003608	\$0.002497
Non-Residential Tariff	4.19%	2.86%

(1) TEP estimates it will spend \$6.2 million on DSM programs from January 2012 through September 2013. This expense will be covered by the collection of the existing DSMS through September 2013

TABLE 3: Interim Performance Incentive

**Energy Efficiency Shared Benefits
DSM Program Year 2012**

Part I - Base Performance Incentive		
2012 DSM Costs		\$11,040,296
2012 Net Benefits		\$22,626,485
Shared Savings		7%
Part I - Base Energy Efficiency Shared Benefits (net benefits times 7.0%)		\$1,583,854
Part II - Other Performance Metrics		
	Target	Dollars
Net Benefit per customer dollar spent (net benefits/actual spending)	2:1 ratio	\$1,100,000
Community weatherization workshops	30	\$150,000
Community outreach – monthly outreach to Seniors on EE (starting Oct)	4	\$150,000
Loan program – train contractors on TEP’s new loan program	8	\$150,000
Low Income Weatherization – 5% increase in participation over 2011	163	\$150,000
Part II: Other Performance Metrics at 100% of Goal		\$1,700,000
Total New Performance Incentive for 2012		
At 80% of Goal		\$2,627,083
At 100% of Goal		\$3,283,854
At 120% of Goal		\$3,940,625

TABLE 4: Average Bill Impact

Average Bill Impact				
	Current DSMS	Proposed DSMS	Dollar Increase	Total Bill % Increase
Residential	\$1.10	\$2.20	\$1.10	1.17%
Small Commercial	\$5.37	\$13.60	\$8.23	1.71%
Large Commercial	\$200	\$460	\$260	1.60%
Industrial	\$1,874	\$3,393	\$1,519	1.26%