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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

STAFF'S NOTICE OF FILING DIRECT TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of Julie McNeely-Kirwan, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 15th day of June, 2012.

Charles H. Hains
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Original and thirteen (13) copies of the foregoing filed this 15th day of June, 2012, with:

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Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
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BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2012-2013 ENERGY EFFICIENCY IMPLMENTATION PLAN	)))))	DOCKET NO. E-01933A-11-0055

DIRECT

TESTIMONY

OF

JULIE MCNEELY-KIRWAN

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 15, 2012

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EXECUTIVE SUMMARY
TUCSON ELECTRIC POWER COMPANY
DOCKET NO. E-01933A-11-0055

Tucson Electric Power Company ("TEP" or "Company") is seeking approval of its 2012-2013 Energy Efficiency Implementation Plan.

The Company is seeking waivers from the Energy Efficiency Standard for 2012 and 2013 and is also proposing: (i) $18.5 million in spending from October 2012 through December 2013: (ii) $3.9 million in recovery for its under-collected balance; (iii) approximately $1.1 million in Performance Incentives for 2010 and an additional $1.1 million for 2011 (using methodology determined during the last rate case), and (iv) a target of $3.3 million for the Performance Incentive for 2012 (calculated using a new methodology). The Company is also proposing that Non-residential recovery for demand-side management ("DSM") be based on a percentage of each Non-residential customer's bill. Under the TEP proposal, recovery from Residential customers would remain on a per-kWh basis.

Staff recommends that:

1. The programs and measures recommended for approval in Staff's Proposed Order that was docketed on November 16, 2011 and amended on February 29, 2012, be approved.

2. TEP's Implementation Plan Budget be increased from the $18.5 million proposed by the Company to approximately $23 million in order to enable TEP to meet or more closely approach the Energy Efficiency Standard.

3. The requested waivers for the 2012 and 2013 Energy Efficiency Standards not be approved.

4. TEP's proposed Interim Performance Incentive not be approved and that the current Performance Incentive methodology remain unchanged until it is reviewed in TEP's soon to be filed rate case, when it can be more fully considered.

5. The DSM Surcharge be maintained on a per-kWh basis for all customer classes.

6. There be no floor payments established for any Performance Incentive.

7. TEP's requested waiver from filing its 2013 Implementation Plan be approved.

8. Not only actual costs, but the 2012 Performance Incentive itself be trued-up to ensure that it reflects an incentive level based on actual, rather than projected, savings.

9. That Lost Fixed Cost Recovery ("LFCR") be dealt with as part of TEP's upcoming rate case. However, if LFCR is dealt with as part of this Updated Plan, TEP should be authorized to defer unrecovered fixed costs associated with energy efficiency savings, in the manner described in Staff's testimony.

If the Commission disagrees with Staff's recommendations above, Staff has proposed Alternative 1 and Alternative 2, below, providing for lower budgets and waivers for the Energy Efficiency Standard.

Alternative 1. (i) a waiver be granted for 2012 and 2013; (ii) programs and measures proposed in the proposed order be approved; (iii) the approximately $18.5 million spending level proposed by the Company be approved (iv) Staff's recommendations on the true-up, and the 2013 Implementation Plan filing be approved; and (v) the DSM Surcharge be reset at $0.002284 to reflect TEP's proposed spending level and Staff's recommendations on Performance Incentive and recovery methodologies.

Alternative 2. (i) a waiver be granted for 2012 and 2013; (ii) programs and spending remain unchanged at this time, and left at approximately $7.5 million per year; (iii) the DSM Surcharge be reset at $0.001432 to reflect the $7.5 million spending level and Performance Incentives calculated according to the existing methodology; (iv) recovery continue to be made on a per-kWh basis for all customers; (v)TEP shall be granted a waiver with respect to filing its 2013 Implementation Plan; (vi) the true-up be done in accordance with Staff's recommendations; and (vii) the TEP Implementation Plan and all related issues, including, but not limited to, the DSM budget, and the Performance Incentive and recovery methodologies, be addressed in the upcoming TEP rate case; and (viii) Alternative 2 shall remain in effect until further action of the Commission (most likely the Commission decision in the rate case).

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Julie McNeely-Kirwan. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst IV.

A. My duties as a Public Utilities Analyst IV include reviewing and analyzing applications filed with the Commission, and preparing memoranda and proposed orders for Open Meetings. In addition, my duties have included preparing written testimony in multiple rate cases, and testifying during the related hearings. I have also assisted in the management of rate cases and have performed evaluations of energy efficiency implementation plans.

Q. Please describe your educational background and professional experience.

A. In 1979, I graduated Magna Cum Laude from Arizona State University, receiving a Bachelor of Arts degree in History. In 1987, I received a Master's Degree in Political Science from the University of Wisconsin, Madison. I have been employed by the Commission since September of 2006. Since that time, I have attended a number of seminars and classes on general regulatory issues, including demand-side management and the gas and electric industries.

Q. What is the scope of your testimony in this case?

A. Staff's testimony will discuss concerns arising from Tucson Electric Power Company's ("TEP" or "the Company") Energy Efficiency Implementation Plan ("the Updated Plan"), as proposed by TEP in TEP's Procedural Comments docketed on May 2, 2012. Staff's testimony will also address Staff's proposed modifications with respect to TEP's Updated Plan.

SUMMARY OF TEP'S UPDATED PLAN

Q. Please summarize TEP's proposed Updated Plan.

A. TEP's Updated Plan:

- is designed to cover the 15-month period from October 2012 though December 2013;
- is budgeted to spend approximately $18.5 million over the 15-month period from October 2012 through December 2013;
- will not meet the Energy Efficiency ("EE") Standard for 2012 or 2013 and requests waivers for those years;
- includes 8 Residential programs, 8 Non-residential programs, 2 Behavioral programs, an Education and Outreach program and a Residential Energy Financing program, along with Codes Support and Program Development, Analysis and Reporting Software.
- is calculated to recover an under-collection of approximately $3.9 million, as of the end of September 2012;
- is calculated to recover Performance Incentives of approximately $1.1 million for 2010 and another approximately $1.1 million for 2011, based on methodology from the last rate case; and
- is proposed to recover an Interim Performance Incentive ranging from a floor of $2.6 million to a ceiling of $3.9 million for 2012, based on a new methodology; and

- proposes a $0.002497 per kWh demand-side management ("DSM") Surcharge for Residential customers and a 2.86 percent rate on all charges (except taxes and other governmental assessments) for Non-residential classes.

STAFF'S ANALYSIS

Q. Does Staff believe that TEP's Updated Plan should be implemented as proposed?

A. No. Staff has a number of concerns about TEP's Updated Plan.

Q. What are Staff's concerns?

A. Staff's major concerns with respect to TEP's Updated Plan are as follows:

- TEP states that, based on the Updated Plan (approximately $18.5 million over 15 months) it will not meet the Energy Efficiency Standard for 2012 or 2013 and requests waivers for those years.
- TEP's Updated Plan would change the Performance Incentive methodology outside a rate case, and in a manner that would increase cost to ratepayers. In addition, the proposed methodology does not adequately support the payments associated with the Other Performance Metrics.
- TEP's Updated Plan would change the Non-residential DSM Surcharge mechanism outside of a rate case, and in a manner that shifts the per-kWh burden of paying for DSM from larger to smaller Non-residential customers.
- TEP's Updated Plan provides for an Interim Performance Incentive with a floor of $2.6 million.
- TEP's Interim Performance Incentive should be trued-up to reflect the savings actually achieved, but the filing's language on this point is not clear.

Q. Has TEP requested waivers with respect to the Energy Efficiency Standards?

A. Yes. TEP has requested waivers of the Energy Efficiency Standards for 2012 and 2013. The Company has also requested a waiver from filing its 2013 Implementation Plan, because the Updated Plan is intended to cover 2013.

Q. How does the proposed spending level impact TEP's ability to meet the Energy Efficiency Standards?

A. In the Proposed Modified Implementation Plan (January 31, 2012), based on an annual $18.5 million annual budget, TEP stated that it might need to request a waiver, but that "[e]ven with these budget reductions, TEP hopes to meet the EE Standard for 2012 and believes it could possibly meet the EE Standard in 2013." In its May 2, 2012, Updated Plan TEP proposes the same $18.5 million in spending, but over 15 months, and states that the Company will not meet the EE Standard for either 2012 or 2013.

Q. What are Staff's concerns with the level of spending proposed by TEP?

A. Staff's position is that the Energy Efficiency Standards require affected utilities to meet the Standards set in the Rules. TEP's DSM budget should be set at a level that would enable the Company to achieve each Energy Efficiency Standard and, where that is not feasible, to more closely approach yearly standards, so that the 2020 Standard remains achievable. In order to determine this level, Staff has calculated the monthly spending for the Modified Plan (designed to potentially meet the Standard), then extended that monthly spending over the 15-month period proposed by TEP. The result is an approximately $23 million budget.

Q. Would a higher budget guarantee that TEP will meet the Energy Efficiency Standards?

A. Not necessarily. Higher spending may enable TEP to meet the 2013 Standard and will make it more likely that the Company will meet Standards in future years.

Q. Is TEP's requested waiver from filing its 2013 Implementation Plan reasonable?

A. Staff believes it is not unreasonable to grant this waiver, in light of the fact that in TEP's upcoming rate case Staff may be proposing an entirely new method of funding energy efficiency such that energy efficiency would be treated as part of TEP's resources, and as such be included as part of TEP's rate base.

Q. What is Staff's recommendation regarding TEP's proposed $18.5 budget and its requests for waivers?

A. Staff recommends that TEP's Implementation Plan Budget be increased from the $18.5 million proposed by the Company to approximately $23 million. Staff further recommends that the requested waivers for the 2012 and 2013 Energy Efficiency Standards not be approved.

Q. What is Staff's recommendation regarding the DSM Surcharge which includes a DSM budget designed to enable the Company to more closely approach, or achieve, the Energy Efficiency Standards?

A. Staff's recommends a DSM Surcharge of $0.002699 for the 15-month period. The $0.002699 DSM Surcharge is based on the carry over balance as of the end of September 2012, on performance incentives calculated based on existing methodology for 2010 through 2012, and on a budget designed to enable the Company to more closely approach, or achieve, the Energy Efficiency Standards. The components of the DSM Surcharge are listed below:

Table 1

With 2012 Performance Incentive	
Carry Over Balance	$3,861,556
2010 Performance Incentive	$1,114,648
2011 Performance Incentive	$1,101,749
15-month Budget	$23,165,758
2012 Performance Incentive (old methodology)	$902,986
Total	$30,146,697
15-month forecasted MWh	11,170,724,000
Staff DSM Surcharge	**$0.002699**

Q. Why is Staff's proposed Surcharge higher than the one proposed by the Company?

A. Because Staff proposed higher DSM spending for the TEP portfolio of programs, in order to enable the Company to more closely approach the EE Standard for 2012, to meet the EE Standard for 2013 and to make the 2020 EE Standard set in the Rules achievable. The higher budget is offset, partially, by the lower 2012 Performance Incentive recommended by Staff.

Q. What are the bill impacts for the DSM Surcharges proposed by TEP and Staff?

A. These are listed in Table 2, below:

Table 2

	DSM Surcharge	$0.001249	$0.002497/2.68%	$0.002699
Customer Class	Average monthly usage	Current average monthly impact	Average monthly impact based on TEP's recommendation of $0.002497 per kWh for Residential and 2.68% of the bill for Non-residential customers	Average monthly impact based on Staff's recommendation of $0.002699 per kWh for all customers
Residential	880	$1.10	$2.20	$2.38
Small Commercial	4,300	$5.37	$13.60	$11.61
Large Commercial	160,000	$199.84	$460.26	$431.84
Industrial	1,500,000	$1,873.50	$3,392.50	$4,048.50

Q. Why are some of the bill impacts for the proposed TEP DSM Surcharge higher, while others are lower?

A. Because the percentage of bill rate proposed by TEP for its Non-residential customers results in different effective kWh rates, as shown in Table 4, herein.

Q. Please describe the current methodology for calculating the Performance Incentive.

A. The current methodology for calculating the Performance Incentive was set in the last rate case, as determined in the Settlement Agreement and approved in Decision No. 70628. Under this methodology, the Performance Incentive is based on 10 percent of Net Benefits, capped at 10 percent of DSM spending. The calculation excludes the Low-Income Weatherization, Educational and Outreach and Direct Load Controls programs.

TEP proposes to use this methodology for the 2010 and 2011 Performance Incentives, but proposes a different methodology for its new Interim Performance Incentive.

Q. Please describe the methodology proposed in TEP's Updated Plan for calculating the Interim Performance Incentive.

A. In the Updated Plan, TEP proposes a 2012 Interim Performance Incentive consisting of two parts: Part I: the Base Performance Incentive; and Part II: Other Performance Metrics.

Part I: the Base Performance Incentive is equal to 7 percent of the Net Benefits.

Part II: Other Performance Metrics, consists of five metrics, with targets and associated incentive dollars, as shown below:

Table 3

Metric	Target (totals for 2012)	Associated Incentive Dollars
Net Benefit per customer dollar spent.	2:1 ratio	$1,100,000
Community weatherization workshops	30 workshops	$150,000
Community outreach (monthly outreach to Seniors about energy efficiency).	4 Community outreach events	$150,000
Loan program (training contractors on TEP's new loan program).	8 contractors trained	$150,000
Low Income Weatherization (5% increase in participation over 2011).	163 houses (8 more than last year)	$150,000
TOTAL (FOR 100% OF GOAL)		**$1,700,000**

Q. Why is Staff concerned about altering the methodology for calculating its Performance Incentive?

A. Staff is concerned about TEP's proposed changes for three reasons: (i) the methodology proposed by TEP significantly increases the Performance Incentive at the expense of ratepayers; (ii) with respect to Part II (the Other Performance Metrics), the payment associated with Net Benefits per customer dollar spent amounts to a double recovery, and the payments associated with the other four metrics are not justified by direct, measurable and verifiable kWh savings; and (iii) it would be preferable to review the Performance

Incentive mechanism in TEP's rate case, where it can be more fully considered, and considered in conjunction with related issues.

Q. How much would the Performance Incentive increase, based on the Company's proposal?

A. For the 2012 calendar year, TEP projects $22.6 million in Net Benefits, and approximately $11 million in DSM costs. Staff has relied on these projections for purposes of estimating the 2012 Performance Incentive based on the methodology set in the last rate case.

Under the current methodology, the 2012 Performance Incentive would initially be calculated as 10 percent of Net Benefits ($2.26 million), which would then be capped at 10 percent of DSM spending ($1.1 million). After subtracting spending associated with the Low-Income Weatherization, Educational and Outreach and Direct Load Controls programs, Staff projects the Performance Incentive at approximately $903,000. By contrast, TEP's proposed Interim Performance Incentive would range from $2.6 million to $3.9 million for 2012 (with a target of $3.3 million).

Q. With respect to Part II of the Interim Performance Incentive (also referred to as the "Other Performance Metrics"), please explain how the payment associated with the Net Benefits per customer dollar spent is a double recovery.

A. Although Staff supports the concept of maximizing energy efficiency benefits for each ratepayer dollar spent, it is not reasonable to allocate $1.1 million for the 2-to-1 ratio projected for Net Benefits to customer dollars spent. Staff notes that the $1.1 million payment would be in addition to the $1.6 million Base Performance Incentive, based on the same Net Benefits from the same DSM portfolio – which is already required to be cost-effective (meaning its benefits must already exceed its costs). In Staff's opinion, a 2-

to-1 ratio of Net Benefits to customer dollars spent is too modest to either demonstrate an enhanced focus on improved benefit-to-cost ratios, or to merit an additional $1.1 million payment.

Q. Please explain Staff's concerns regarding the proposed payments associated with the Other Performance Metrics of Part II (weatherization workshops, community outreach, training of contractors for loan program and increase participation in Low-Income Weatherization).

A. Other metrics under Part II are primarily linked to activities which do not produce direct, measurable, or verifiable savings. For example, TEP proposes that it receive $150,000 for meeting a target goal of 30 community weatherization workshops. It is not clear why TEP should receive an amount equal to $5,000 per workshop, nor is there any level of savings supplied for these workshops. The issues are similar for the proposed senior outreach and loan program training metrics. The senior outreach metric is allocated $150,000 for a total of 4 Community Outreach events, while the loan program metric is allocated another $150,000 for training a total of 8 contractors. Staff notes that the payments allocated for these activities are both substantial and unsupported by data.

There would be savings associated with a 5 percent increase in participation in the Low-Income Weatherization program, but the linkage between the 5 percent target and the proposed $150,000 payment remains unexplained. (Staff also notes that only eight additional houses would be weatherized under this metric and that any savings from the increased participation would reasonably be included in the Net Benefits on which the Base Performance Incentive is based.)

Q. What are Staff's concerns over the range proposed for the Performance Incentive?

A. TEP's Updated Plan proposes an Interim Performance Incentive "with a floor of $2.6 million and a ceiling of $3.9 million." In addition to its general concern about the increased level TEP has proposed for the Performance Incentive, Staff is opposed to there being a floor.

Q. Why is Staff opposed to a floor for the proposed Performance Incentive?

A. A floor would have the effect of guaranteeing a $2.6 Performance Incentive, regardless of the savings actually achieved. With any minimum, there is a risk that the Company could receive a performance incentive that is too high relative to the actual energy savings achieved. (For example, it would be inequitable for TEP to receive an Interim Performance Incentive equivalent to 80 percent of the Goal, if the savings it actually achieved were equivalent to only 50 percent of the Goal.)

The Company has expressed concern about lost fixed cost recovery. However, for there to be lost fixed costs associated with energy efficiency, there have to be savings associated with energy efficiency, meaning sales the utility has foregone as a result of the Company's energy efficiency programs. It makes no sense to guarantee recovery for lost fixed costs at a level higher than what the utility may actually experience.

Staff is also concerned that this proposal, with its high guarantee, is not designed to incentivize energy efficiency above the "floor." Generally, more per-unit effort is required to achieve savings at the higher levels of energy efficiency, than at the lower levels, where efficiency is made easier by the availability of "low hanging fruit." An Interim Performance Incentive which includes a high guaranteed "floor" payment could limit the incentive to achieve energy efficiency savings.

Q. What is Staff's recommendation with respect to the Interim Performance Incentive?

A. Staff recommends that TEP's proposed Interim Performance Incentive not be approved and that the current Performance Incentive methodology should remain unchanged until the rate case, when it can be more fully considered.

Q. Why is Staff concerned about TEP's proposal that the Non-residential DSM Surcharge be based on a percentage of each Non-residential customer's bill, as opposed to a per-kWh rate?

A. TEP's proposal would not only change the DSM adjustor mechanism outside of a rate case, it would result in a lower effective per-kWh DSM recovery for large Non-residential customers paying less per-kWh for their usage. Such a change would tend to shift per-kWh costs for energy efficiency from large Non-residential customers to smaller non-residential customers, a shift which Staff views as inequitable. No convincing rationale has been provided to support an effective lower per-kWh recovery rate for large Non-residential customers.

Q. Please illustrate the impact of moving from per-kWh recovery to percentage of bill recovery.

A. The table below shows that, under TEP's proposal, Small Commercial customers experience the highest effective per-kWh rate, while the lowest rate would be experienced by Industrial customers. (Under TEP's proposal Residential customers would pay a per-kWh rate only.)

Table 4

Customer Class	Average monthly usage	Average monthly impact based on a $0.002497 per-kWh rate for all customers	Average monthly impact based on $0.002497 per-kWh for Residential and 2.68% of the bill for Non-residential customers	**Effective per-kWh rate under TEP proposal to recover $0.002497 per-kWh from Residential and 2.68% of the bill from Non-residential customers**
Residential	880	$2.20	$2.20	**$0.002497**
Small Commercial	4,300	$10.74	$13.60	**$0.003163**
Large Commercial	160,000	$399.52	$460.26	**$0.002877**
Industrial	1,500,000	$3,745.50	$3,392.50	**$0.002262**

Q. What is Staff's recommendation regarding the proposed change to recovery for Non-residential customers?

A. Staff recommends that the DSM Surcharge should be maintained on a per-kWh basis for all customer classes.

Performance Incentive True-up

Q. What are Staff's concerns with the language regarding 2012 Performance Incentive true-up from TEP's Updated Plan?

A. The Updated Plan states "[t]he Energy Efficiency Shared Benefits will be trued-up in the 2012 rate case proceeding." Should the Updated Plan be approved, clarification needs to be provided that not only actual costs, but the Performance Incentive itself would be trued-up to ensure that it reflects an incentive level based on actual, rather than projected, savings. This would mean, for example, that if the Net Benefits actually achieved fall below projections, the Performance Incentive would be recalculated to reflect those savings and the difference between the projected and actual Performance Incentive would be taken into account when the DSM Surcharge was reset.

Q. What does Staff recommend regarding the regarding the true-up?

A. Staff recommends that that not only actual costs, but the 2012 Performance Incentive itself be trued-up to ensure that it reflects an incentive level based on actual, rather than projected, savings.

Lost Fixed Cost Recovery ("LFCR")

Q. The Updated Plan filing expresses concern about LFCR. Does Staff believe that LFCR should be dealt with as part of the Updated Plan?

A. No. Staff recommends that the LFCR be dealt with as part of TEP's upcoming rate case, where it can be more fully considered. However, if the Commission prefers to deal with the issue as part of the Updated Plan, Staff recommends that TEP be authorized to defer unrecovered fixed costs associated with energy efficiency savings, using a methodology approved by Staff.

Q. Please provide more detail.

A. If LFCR is dealt with as part of this Updated Plan, within 30 days of the effective date of a Decision in this case TEP would file in this Docket its proposed methodology for calculating and recording unrecovered fixed costs. This methodology should be approved by Staff before TEP may record any amounts in a deferral account.

Q. Should there be any reporting with respect to the deferral account?

A. Yes. TEP should file, as a compliance item in this Docket, quarterly reports of the account, detailing the current balance and all transactions recorded during the quarter, including the calculations used to determine the recorded amounts. These reports should be filed each April, July, October and January, until there is a decision made in the upcoming rate case.

RECOMMENDATIONS

Q. Please state Staff's recommendations.

A Staff's recommendations are that:

- The programs and measures recommended for approval in Staff's Proposed Order that was docketed on November 16, 2011 and amended on February 29, 2012, be approved.
- TEP's Implementation Plan Budget be increased from the $18.5 million proposed by the Company to approximately $23 million in order to enable TEP to meet or more closely approach the Energy Efficiency Standard.
- The requested waivers for the 2012 and 2013 Energy Efficiency Standards not be approved.
- TEP's proposed Interim Performance Incentive not be approved and that the current Performance Incentive methodology remain unchanged until it is reviewed in TEP's soon to be filed rate case, when it can be more fully considered.
- The DSM Surcharge be maintained on a per-kWh basis for all customer classes.
- There be no floor payments for any Performance Incentive.
- TEP's requested waiver from filing its 2013 Implementation Plan be approved.
- Not only actual costs, but the 2012 Performance Incentive itself be trued-up to ensure that it reflects an incentive level based on actual, rather than projected, savings.
- LFCR be dealt with as part of TEP's upcoming rate case. However, if LFCR is dealt with as part of this Updated Plan, TEP should be authorized to defer unrecovered fixed costs associated with energy efficiency savings, in the manner described in Staff's testimony.

Q. What if the Commission disagrees with Staff's recommendations, above?

A. Staff has proposed Alternative 1 and Alternative 2, below, providing for lower budgets and waivers for the Energy Efficiency Standard.

Alternative 1

Q. Please Describe Alternative 1.

A. Alternative 1. (i) a waiver be granted for 2012 and 2013; (ii) programs and measures proposed in the proposed order be approved; (iii) the approximately $18.5 million spending level proposed by the Company be approved (iv) Staff's recommendations on the true-up, and the 2013 Implementation Plan filing be approved; and (v) the DSM Surcharge be reset at $0.002284 to reflect TEP's proposed spending level and Staff's recommendations on Performance Incentive and recovery methodologies.

Q. What is Staff's recommendation regarding the DSM Surcharge based on TEP's proposed budget, but taking into account Staff's recommendations on the Performance Incentive?

A. Staff recommends a DSM Surcharge of $0.002284 for the 15-month period. The $0.002284 DSM Surcharge is based on the carry over balance as of the end of September 2012, on performance incentives calculated based on existing methodology for 2010 through 2012, and on a budget based on TEP's recommended $18.5 million over 15 months. The components of the alternative DSM Surcharge are listed below:

Table 5

DSM Surcharge Based on Current Spending Levels	
Carry Over Balance	$3,861,556
2010 Performance Incentive	$1,114,648
2011 Performance Incentive	$1,101,749
15-month Budget	$18,532,604
2012 Performance Incentive	$902,986
Total	$25,513,543
15-month forecasted MWh	11,170,724,000
Staff DSM Surcharge	**$0.002284**

Q. Compare the current bill impacts with the bill impacts for Alternative 1.

A. These are listed in Table 6, below:

Table 6

	$0.001249	$0.002284
Customer Class	Current average monthly impact	Average monthly impact based on Staff's recommendation of $0.002284 per kWh for all customers
Residential	$1.10	$2.01
Small Commercial	$5.37	$9.82
Large Commercial	$199.84	$365.44
Industrial	$1,873.50	$3,426.00

Alternative 2

Q. Please Describe Alternative 2.

A. Alternative 2. (i) a waiver be granted for 2012 and 2013; (ii) programs and spending remain unchanged at this time, and left at approximately $7.5 million per year; (iii) the DSM Surcharge be reset at $0.001432 to reflect the $7.5 million spending level and Performance Incentives calculated according to the existing methodology; (iv) recovery continue to be made on a per-kWh basis for all customers; (v) TEP shall be granted a waiver with respect to filing its 2013 Implementation Plan; (vi) the true-up should be done in according with Staff's recommendations; (vii) the TEP Implementation Plan and all related issues, including, but not limited to, the DSM budget, and the Performance Incentive and recovery methodologies, be addressed in the upcoming TEP rate case; and (viii) Alternative 2 shall remain in effect until further action of the Commission (most likely the Commission decision in the rate case).

Q. **What is Staff's recommendation regarding the DSM Surcharge which maintains the current level of spending?**

A. Staff's recommends a DSM Surcharge of $0.001432 for the 15-month period. The $0.001432 DSM Surcharge is based on the carryover balance as of the end of September 2012, on performance incentives calculated based on existing methodology for 2010 through 2012, and on a budget based on current monthly spending levels projected over 15 months. The components of the alternative DSM Surcharge are listed below. Please note that the Performance Incentive for 2012 is estimated based on current methodology and should be trued-up based on actual spending:

Table 7	
DSM Surcharge Based on Current Spending Levels	
Carry Over Balance	$3,861,556
2010 Performance Incentive	$1,114,648
2011 Performance Incentive	$1,101,749
15-month Budget	$9,310,031
2012 Performance Incentive	$564,872
Total	$15,952,856
15-month forecasted MWh	11,170,724,000
Staff DSM Surcharge	**$0.001428**

Q. Compare bill impacts for Alternative 2.

A. These are listed in Table 6, below:

Table 8

	$0.001249	$0.001428
Customer Class	Current average monthly impact	Average monthly impact based on Staff's recommendation of $0.001428 per kWh for all customers
Residential	$1.10	$1.26
Small Commercial	$5.37	$6.14
Large Commercial	$199.84	$228.48
Industrial	$1,873.50	$2,142.00

Q. Does this conclude your Direct Testimony?

A. Yes, it does.