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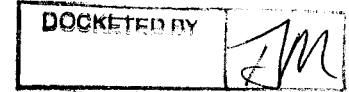
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Arizona Corporation Commission

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June 28, 2012

Chairman Gary Pierce  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007-2996

**Re: Tucson Electric Power Company's Application for Approval of its 2011-2012 Energy Efficiency Implementation Plan, E-01933A-11-0055**

Dear Chairman Pierce and Commissioners,

Conservation Services Group (CSG) is grateful for the opportunity to comment on the Updated Modified Plan now before the Arizona Corporation Commission. Founded in 1984, CSG is a non-profit energy services and solutions provider that serves a range of clients from utilities and public agencies to homeowners and local communities. The leading provider of residential energy efficiency programs in North America, CSG's mission is to offer clients comprehensive, economical programs that provide measurable value. CSG conducts nearly half a million home energy assessments annually for utilities and energy efficiency organizations nationwide and has reached more than 2 million homes in its 25-year history.

CSG urges the Commission to approve the Updated Modified Plan for the reasons explained below. Our comments address the following four areas:

- 1) Provide an overview of our work with TEP and lay out our concerns about the current status of TEP's EE offerings.
- 2) Highlight the job opportunities and consumer benefits TEP programs and others like it offer.

- 3) Explain why waiting until the 2013 rate case to approve TEP's plan will create a climate of uncertainty and confusion for contractors and customers.
- 4) Explain our support for the Updated Modified Plan.

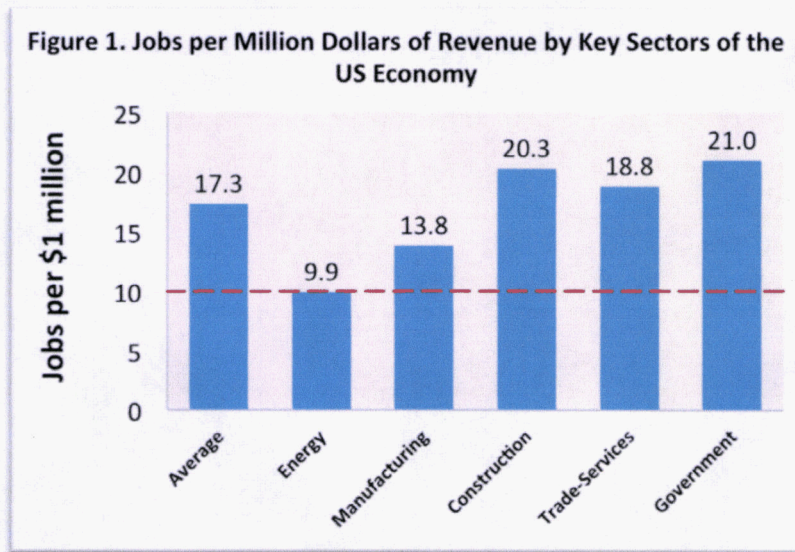
### **Overview of Tucson Electric Power (TEP) Program**

Although the program was only recently launched (May 23, 2011), there has been steady growth in projects completed thus far, and nearly \$500,000 in incentives have been returned to homeowners who made energy efficiency improvements to their homes. These improvements will yield savings of more than 800,000 kWh in the first year alone. More than 20 Tucson-area contractors participated during the initial eight months of the program, most of them small businesses with local ownership. They invested in training, equipment and staff in order to make energy efficiency retrofits a part of their business offerings. Customer interest and participation in the TEP program also grew rapidly, as monthly participation increased 24% month over month since program inception. This early record of success also resulted in helping to stimulate the local economy by creating jobs and saving customers money on their energy bills, adding to their disposable incomes.

It's no surprise, then, why Arizona scored higher on the annual state score card of the American Council on an Energy Efficient Economy (ACEEE), up to 17th place in 2011 from 29th in 2009. CSG is grateful to this Commission for its leadership in the continuous improvement of Arizona's energy efficiency program environment.

## Energy Efficiency Creates Jobs

Energy efficiency (EE) — as part of the broader clean energy sector — represents one of the fastest-growing job sectors across the country. The Arizona construction workforce has been hit especially hard during this recession but has seen something of a revival as a result of TEP’s EE programs. This is because investing in EE spurs job creation in industries that are more labor intensive than average. Figure 1 below shows that redirecting funds from traditional energy, which generates just under 10 total jobs per \$1 million, back into the overall economy, which supports 17 jobs per \$1 million on average, provides one of the most cost-effective methods for stimulating the local economy.



These jobs are good jobs—energy efficiency work requires high quality installation to ensure the delivery of energy savings, which in turn creates employment opportunities in the inspection and verification fields. Both crew and inspection positions require rigorous training in building science, materials handling, and installation, which stimulates demand for instructors and training professionals, new equipment, and other products up and down the local supply chain.

## **Customer Benefits**

The economic benefits of investing in energy efficiency do not stop at job creation. For homeowners who participate in the program, increased efficiency leads to bill savings, which subsequently leads to more spending in the local economy. However, even for customers who do not participate in the program, the benefits are still real, as wholesale electricity prices drop over time as a result of lower demand for energy. Known as the Demand Reduction Induced Price Effect—or DRIPE for short—large EE programs drive energy costs down, even for program non-participants<sup>1</sup>.

Arizona and specifically TEP ratepayers have already reaped these benefits. Electric lifetime savings since 2009-2011 have exceeded 3.5 GWh, with gas savings exceeding 2.2 million therms. As a young program still in its beginning stages, these are truly great results. The Commission has the opportunity to reinstate programs and keep the momentum and substantial progress that has been made moving into 2013.

## **Market Stability**

The abrupt halt of TEP's Demand Side Management (DSM) programs has sent a confusing message to customers and contractors alike. Showing the DSM marketplace that state policy makers have an unwavering commitment to investing in cost-effective EE programs is fundamental if Arizona is serious about lowering its overall demand for energy, and if the Commission wants to meet its EE standard.

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<sup>1</sup> See: AESC/ Synapse study - <http://www.synapse-energy.com/Downloads/SynapseReport.2011-07.AESC.AESC-Study-2011.11-014.pdf>

Providing a level of market stability allows contractors to invest in new insulation, air sealing, HVAC equipment, as well as hire new crew members to meet growing demand. Furthermore, it allows utilities to create comprehensive cost-effective EE plans that achieve deeper savings, with the knowledge that they will receive compensation and not be penalized financially for doing so.

### **Updated Modified Plan**

The Updated Modified Plan represents a compromise. While this plan is 75% of the funding level amount recommended by Commission Staff, it still provides a reasonable opportunity for TEP to meet its EE goal, with only a \$1.10/month increase for residential customers. This small rate increase should not be the end-all factor when determining whether or not to approve the plan—short-term, lowest-cost considerations are not necessarily the right ones. The jobs that have already been created and the potential for many more, the savings customers will realize in the fall of 2012 and beyond, and the overall downward pressure on wholesale prices going forward, provide a compelling argument to approve this Modified Plan.

### **Conclusion**

CSG appreciates the Procedural Order issued by the Commission, which established this evidentiary hearing process. By focusing on TEP's Updated Modified Plan, our hope is that these hearings will lead to the reinstatement and improvement of EE programs for TEP customers by the fall of 2012. Conversely, deferring TEP's EE implementation plan to the 2013 TEP rate case would be a costly decision, hurting contractors who invested costly resources in the program, homeowners who expected these programs to still be around but are now confused by the unreliable market, and the Commission, which set a 2011-2012 EE standard but is now in jeopardy of falling short of its goal.

CSG remains committed to participating in the Arizona stakeholder process and looks forward to helping in any way to restore the state's commendable record in energy savings and in creating a clean energy future.

Sincerely,

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