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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

**NOTICE OF FILING REBUTTAL  
TESTIMONY OF KEVIN C.  
HIGGINS ON BEHALF OF  
FREEPORT-MCMORAN COPPER &  
GOLD INC. AND ARIZONANS FOR  
ELECTRIC CHOICE AND  
COMPETITION**

Freeport-McMoRan Copper & Gold, Inc. (Freeport-McMoRan) and Arizonans for Electric Choice and Competition (AECC) (collectively "AECC") hereby submit the Rebuttal Testimony of Kevin C. Higgins on behalf of AECC in the above captioned Docket.

RESPECTFULLY SUBMITTED this 6<sup>th</sup> day of July 2012.

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By *[Signature]*

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1 **ORIGINAL** and **13 COPIES** of the foregoing  
2 **FILED** this 6<sup>th</sup> day of July 2012 with:

3 Docket Control  
4 ARIZONA CORPORATION COMMISSION  
5 1200 West Washington  
6 Phoenix, Arizona 85007

7 **COPY** of the foregoing was **HAND-DELIVERED/**  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

**Rebuttal Testimony of Kevin C. Higgins**

**on behalf of**

**Freeport-McMoRan Copper & Gold Inc. and**

**Arizonans for Electric Choice & Competition**

**July 6, 2012**

**DIRECT TESTIMONY OF KEVIN C. HIGGINS**

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**TABLE OF CONTENTS**

Table of Contents.....	i
Introduction.....	1
Overview and Conclusions .....	1
Response to Mr. Schlegel .....	2
Response to Ms. McNeely-Kirwan.....	3



1 rider for Non-Residential customers included in the Updated Plan would cause a  
2 larger percentage increase (relative to the current DSMS) for smaller Non-  
3 Residential customers than for larger Non-Residential customers.  
4

5 **RESPONSE TO MR. SCHLEGEL**

6 **Q. What concern does Mr. Schlegel express regarding the DSMS rate design**  
7 **included in the Updated Plan?**

8 A. Mr. Schlegel notes that, according to TEP, the Updated Plan would cause  
9 a 1.76% rate increase for small commercial customers, while the increase for  
10 industrial customers would be 1.26% and the increase for large commercial  
11 customers would be 1.60%. Mr. Schlegel states that SWEEP could accept this  
12 differential rate impact for the interim period of the Updated Plan so long as small  
13 commercial customers as a whole receive the energy efficiency (“EE”) program  
14 funding collected from them.

15 **Q What is your response to Mr. Schlegel’s comments?**

16 A. In assessing the percentage bill impact on Non-Residential customers  
17 attributable to the DSMS in the Updated Plan it is important to recognize where  
18 all Non-Residential customers end up under the Updated Plan: EQUAL. Every  
19 Non-Residential customer experiences the same 2.86% overall rate impact from  
20 the DSMS in the Updated Plan. The fact that the percentage *change* required to  
21 get to an equal percentage bill impact is less for larger customers stems from the  
22 fact that under the current DSMS these customers are paying a higher percentage  
23 of their bill toward EE funding than smaller customers. Thus, it requires a one-  
24 time unequal percentage change (across different sized Non-Residential

1 customers) to achieve an equal percentage overall bill impact for funding EE.  
2 The final result of the Updated Plan rate design – an equal percentage bill impact  
3 for EE funding – is inherently equitable.

4 **Q. What is your response to Mr. Schlegel’s proposal that small commercial**  
5 **customers as a group should receive the EE program funding that they**  
6 **contribute through their DSMS payments?**

7 A. AECC does not object to this concept, so long as the remaining Non-  
8 Residential customers are similarly able to receive the full EE funding that they  
9 contribute.

10

11 **RESPONSE TO MS. MCNEELY-KIRWAN**

12 **Q. What is your general assessment of Staff’s position opposing the Updated**  
13 **Plan filed by TEP?**

14 A. Staff’s preferred alternative is a more expensive proposition for customers,  
15 not only in terms of the direct cost of the EE program (\$23 million vs. TEP’s  
16 proposed \$18.5 million), but also because Staff’s position leaves open the  
17 possibility of deferring for later recovery fixed costs associated with lost revenues  
18 from energy efficiency savings. Although Staff takes an aggressive position in  
19 opposition to the performance incentive (when considered in isolation) in the  
20 Updated Plan, the *overall* package presented in the Updated Plan reflects good-  
21 faith give and take among stakeholders and is on the whole a superior package  
22 than that advocated by Staff as its preferred alternative. Therefore, I recommend  
23 that Staff’s preferred alternative be rejected by the Commission in favor of the  
24 Updated Plan that reflects the input of TEP, RUCO, SWEEP, and AECC.

1 **Q. What is your response to Ms. McNeely-Kirwan's assertion that the DSMS**  
2 **rate design in the Updated Plan is inequitable?**

3 A. Ms. McNeely-Kirwan notes that an equal percentage DSMS would result  
4 in a lower effective DSMS for larger Non-Residential customers when measured  
5 on a per-kWh basis. She states that Staff views this as inequitable. She further  
6 states that no convincing rationale has been provided to support an effective lower  
7 per-kWh rate for large Non-Residential customers.

8 **Q. Did you address the rationale for an equal percentage DSMS in your direct**  
9 **testimony?**

10 A. Yes, I did. I pointed out that an equal percentage DSMS makes the cost  
11 of funding EE programs proportionate to each Non-Residential customer's bill,  
12 which makes sense because a proportionate surcharge better reflects the potential  
13 benefits the customer might receive as a result of EE programs than an equal per-  
14 kWh surcharge. It therefore strikes a more reasonable balance between the costs  
15 charged to customers for EE programs and the potential benefits they might  
16 receive. I noted further that a percentage surcharge to underwrite program costs is  
17 more transparent than the cents-per-kWh rate because it is more immediately and  
18 directly translatable to the customer and makes for a more straightforward  
19 comparison of the overall EE program cost burden across customers than a per-  
20 kWh charge. I also pointed out that the use of percentage-based riders for  
21 recovering EE costs was commonplace in several other western states.

22 **Q. Why does a proportionate surcharge better reflect the potential benefits the**  
23 **customer might receive as a result of EE programs than an equal per-kWh**  
24 **surcharge?**

1 A. On average, it is significantly more expensive for the utility to generate  
2 and deliver one kilowatt-hour to a small Non-Residential customer than to a large  
3 industrial customer: this is why small commercial customers and large industrial  
4 customers pay different rates. This cost differential takes into account the fact  
5 that larger customers tend to have a higher load factors than smaller customers;  
6 that is, larger customers tend to consume energy more evenly throughout the day  
7 and year than smaller customers, thereby utilizing the utility's fixed generation,  
8 transmission and distribution facilities more efficiently, resulting in an overall  
9 lower unit cost of production. Further, the largest industrial customers typically  
10 take delivery at high voltage and do not even use the distribution system at all,  
11 further reducing the unit-cost of production.

12 In recognition of these cost drivers, the Commission's EE Rules require  
13 that the avoided cost of new capacity, transmission, and distribution be considered  
14 when evaluating the benefits of energy efficiency measures. [R14-2-2401.23]  
15 Thus, the higher unit-cost of serving lower-load-factor customers is taken into  
16 account in justifying program expenditures.

17 Because a small commercial customer pays a higher rate per-kWh for  
18 power, the small commercial customer will save more money than an industrial  
19 customer for every kilowatt-hour of reduced energy consumption. Given the  
20 higher cost to serve smaller customers (on average) and the higher savings-per-  
21 kWh that a smaller customer experiences when conserving energy, it makes  
22 perfect sense for the effective per-kWh charge for funding EE programs to be  
23 higher for these customers than for larger customers, who are less expensive to  
24 serve and who save less money per-kWh from energy conservation. This is why a

1           proportionate charge (i.e., an equal percentage rider) is the most reasonable way  
2           to recover EE costs.

3    **Q.    Does this conclude your rebuttal testimony?**

4    A.           Yes, it does.