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0000140283

BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission DOCKETED OCT 31 2012

2012 OCT 31 P 1:39

AZ CORP COMMISSION DOCKET CONTROL

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IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL OF ITS 2011-2012 GAS ENERGY EFFICIENCY IMPLEMENTATION PLAN.	DOCKET NO. G-04204A-11-0149 **EXCEPTIONS OF UNS GAS**

UNS Gas, Inc. ("UNS Gas" or the "Company"), through undersigned counsel, hereby submits its exceptions to the Proposed Order prepared by Utilities Division Staff ("Proposed Order"). These exceptions address two of Staff's recommendations regarding the proposed Solar Water Heating program. Without modification, as discussed below, Staff's recommendations will hinder UNS Gas's ability to make this program successful and ultimately reduce UNS Gas's ability to meet the Gas Energy Efficiency Standards ("GEES"). UNS Gas has provided proposed amendment language below.

Overview

UNS Gas has proposed a Solar Water Heating program. Gas-fired water heaters are a primary use of gas for many UNS Gas customers and solar water heaters reduce the amount of gas those customer use – which is the goal of the GEES. The type of solar water heating system that UNS Gas will subsidize is the same type of system that electric utilities currently subsidize under their Renewable Energy Standard and Tariff ("REST") plans. UNS Gas would provide an incentive of $699 for a solar water heating system which typically costs $5,500. Electric utility REST incentives for solar water heating average approximately $1,350.

Staff has reviewed the Solar Water Heating program and has recommended approval of the program subject to several conditions. Unfortunately, two of those conditions create significant obstacles that effectively eliminate the Solar Water Heating program as a viable GEES program for UNS Gas. The other gas utility in Arizona that offers a Solar Water Heating program (Southwest Gas) is not burdened with such conditions. As a result, UNS Gas is precluded from implementing a program that is being used successfully by another Arizona gas utility to meet the GEES. Moreover, both of these conditions result in an adverse economic impact on UNS Gas because UNS Gas will lose gas sales without being able to recover its related lost fixed cost revenues.

<u>**Specific Exceptions**</u>

A. Restriction on receiving incentives from two utilities.

In Finding of Fact No. 67 at page 21, lines 12-23, Staff recommends a condition that would preclude a customer from receiving an incentive for Solar Water Heating from more than one utility. However, given the difference in potential incentives between UNS Gas ($699) and the average electric utility ($1,350), UNS Gas simply will not have any participation in its program. The condition entirely guts a key mechanism for UNS Gas to reduce one of the primary uses of gas in its service area, thus making it challenging for UNS Gas to meet the GEES.

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This condition also is unfair to UNS Gas in comparison to other gas utilities. Southwest Gas has a Commission-approved Renewable Energy Technology ("RET") Solar Water Heating program that does not have such a restriction. In fact, Southwest Gas is currently paying incentives for systems in Tucson Electric Power Company's ("TEP's") service territory where customers used gas as the primary water heating source and continue to use gas fuel as the back-up heating source. These incentives are being paid even though these customers are also collecting an incentive from TEP as part of TEP's approved REST program.

Moreover, contrary to Staff's concern, the incentives proposed by UNS Gas in combination with other utility incentives are not designed to pay 85% of installed system costs. The average installed cost of a Solar Water Heating system is approximately $5,500. The average electric utility REST incentive is approximately $1,350. Combined with a UNS Gas EE incentive of $699, the total average incentive would be approximately $2,049, which is less than the 50% of installed cost cap recommended by Staff for the UNS Gas incentive alone. UNS Gas will work with other electric utilities to ensure that the combined utility incentives, along with any applicable tax rebates, would not exceed 85% of installed cost, as is currently the restriction in the Commission approved RECPP for UNS Electric's REST program.

In sum, if customers are only allowed to choose from either the UNS Gas incentive or the electric utility REST incentive, the customers will always choose the greater incentive from the electric utility, effectively eliminating participation in UNS Gas' proposed Solar Water Heating Program, and dramatically reducing UNS Gas' ability to meet the GEES. This condition should be removed.[1]

B. Restriction on counting energy savings.

In Finding of Fact No. 67 at page 22, lines 1-4, Staff recommends a condition that would preclude UNS Gas from counting the energy savings if the electric utility pays a REST incentive for a solar water heating system in order to avoid "double-counting." This restriction eliminates the reason for UNS Gas to offer the program and makes it difficult for UNS Gas to meet the GEES because water heating is a significant use of gas in its service area.

UNS Gas also does not agree that this constitutes "double counting." Incentives from the electric utilities' current REST programs are used to purchase Renewable Energy Credits ("RECs") from the customers, which are then retired by the electric utilities in order to meet the Renewable Energy Standards. UNS Gas will not be purchasing RECs, but will be counting the energy savings from the installation of solar water heaters where UNS Gas had been (or could be) providing gas for water heating. See A.A.C R14-2-2504.G. This is particularly true when UNS Gas also provides an incentive (as requested in the first exception above.)

Finally, as with the proposed prohibition on parallel incentives discussed above, the proposed restriction on "double counting" is inequitable because Southwest Gas is not subject to this restriction for its Commission-approved programs.

[1] However, if the Commission decides to keep the restriction on double incentives, then UNS Gas requests an increase in their allowable incentive equal to or greater than the equivalent electric utility REST incentive, in order to compete.

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The Commission should remove this condition.

C. Adverse economic impact of the two conditions.

Both of the conditions discussed above will result in an adverse economic impact on UNS Gas. If Staff's two conditions are not removed, UNS Gas will suffer a loss of fixed cost revenues due to reduced gas sales *without* any opportunity to recover those lost fixed costs. Specifically, if Staff's two conditions are approved, UNS Gas will not be able to recover the lost fixed costs associated with the retrofit of gas-fired water heaters with solar water heating systems that are incented through electric utility REST programs. UNS Gas will not be able to track these systems for inclusion in its Commission-approved Lost Fixed Cost Recovery ("LFCR") mechanism without the ability to pay incentives on those systems and track them in its EE portfolio. That result is an unintended – and unjust - adverse economic impact.

D. Proposed Amendment Language.

The Commission can address UNS Gas's concerns with the following amendment language:

"**DELETE** page 21, lines 12-23"

and

"**DELETE** page 22, lines 1-4."

Conclusion

UNS Gas requests that the Commission amend the Proposed Order as set forth in these Exceptions.

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RESPECTFULLY SUBMITTED this 31st day of October 2012.

UNS Gas, Inc.

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Original and 13 copies of the foregoing filed this 31st day of October, 2012, with:

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