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February 1, 2013

Re: Tucson Electric Power Preliminary Term Sheet;
Docket No. E-01933a-12-0291

Dear Parties to the Docket:

Energy Efficiency (EE)

I am writing this letter to share my thoughts and concerns related to the Preliminary Term Sheet's proposal for treatment of energy efficiency (EE) and demand side management (DSM) in Tucson Electric Power Company's (TEP) current rate case.

On **Page 2, Section E** of the Preliminary Settlement Term Sheet for TEP it states:

"TEP will implement an Energy Efficiency Resource Plan ("Plan"), as proposed by Staff, which is intended to treat energy efficiency and demand-side management similar to a generation resource. Under this plan, TEP will invest (just as TEP does with other conventional energy resources) in cost-effective energy efficiency programs that have been approved by the Commission and earn the rate of return established in this case on that investment, after providing documentation that the expected energy savings have been achieved. The investment costs and the return on the investment will be recovered through an after-the-fact DSM surcharge."

I think it is fair to say that allowing TEP to capitalize (i.e., rate base) its expenditures on energy efficiency would be a significant change to current policy, where TEP and all other energy companies regulated by the Commission currently expense their energy efficiency expenditures. It would change TEP's incentives for investing in energy efficiency; other things being equal, utilities prefer to spend money on rate base instead of expenses, because they earn a rate of return on rate base expenditures, but not on expenses. Thus, allowing TEP to rate base its energy efficiency expenditures would remove a natural disincentive that TEP might have to invest in cost-effective energy efficiency, and help place energy efficiency on a level playing field with TEP's other resource options. I am intrigued by the proposal, and could potentially be persuaded to support it.

However, in an effort to avoid a potential wasting of Commission time and resources, I offer the following comments.

If it is time to begin treating energy efficiency and demand-side management similar to generation resources, perhaps it's time to really begin treating them like the other generation resources. Except for

February 1, 2013

Tucson Electric Power Preliminary Term Sheet;

Page Two

renewables, the other generation resources don't have resource-specific adjustor mechanisms, and the Commission has not adopted rules mandating the acquisition of those resources over a very specific—and some would say arbitrary—period of time. I question the wisdom of giving TEP the "rate base" incentive to spend on energy efficiency while simultaneously maintaining the mandates for TEP to spend on energy efficiency. Doing so would create a short circuit in our integrated resource planning process. We wouldn't ask the question, should TEP invest in new resources at all? TEP would prudently (because it's required to) and happily (because of its new rate base incentive) continue to invest in new energy efficiency resources even when it did not need any new resources at all.

I am not necessarily opposed to including energy efficiency and demand-side management costs in rate base, and perhaps even recovering those costs through a separate DSM surcharge. However, those costs should be justified based on TEP's actual customer needs as established in TEP's integrated resource plan. I would expect parties who advocate for the adoption of a settlement agreement that would allow TEP to rate base its energy efficiency and demand-side management costs, to simultaneously advocate for TEP to be permanently exempted from the Commission's energy efficiency rules.

Of course, all parties remain free to advocate for whatever positions they want the Commission to consider, and their positions will be considered by all commissioners, not just myself. I share these comments, as one of five commissioners, with the goal of helping the parties avoid wasting the Commission's time and resources.

Thank you, in advance, for your thoughtful consideration of my comments. I look forward to seeing the final settlement agreement should you put one forward for the Commission to consider.

Sincerely,



Commissioner Gary Pierce

cc.	Chairman Bob Stump	Janice Alward
	Commissioner Brenda Burns	Lyn Farmer
	Commissioner Robert Burns	Steven Olea
	Commissioner Susan Bitter Smith	Rebecca Wilder
	Jodi Jerich	