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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

6 BOB STUMP, CHAIRMAN
7 GARY PIERCE
8 BRENDA BURNS
9 BOB BURNS
10 SUSAN BITTER SMITH

10 IN THE MATTER OF THE APPLICATION
11 OF TUCSON ELECTRIC POWER
12 COMPANY FOR THE ESTABLISHMENT OF
13 JUST AND REASONABLE RATES AND
14 CHARGES DESIGNED TO REALIZE A
15 REASONABLE RATE OF RETURN ON THE
16 FAIR VALUE OF ITS OPERATIONS
17 THROUGHOUT THE STATE OF ARIZONA.

Docket No. E-01933A-12-0291

**NOTICE OF FILING RESPONSIVE
TESTIMONY OF SOUTHWEST
ENERGY EFFICIENCY PROJECT IN
PARTIAL OPPOSITION TO THE
PROPOSED SETTLEMENT
AGREEMENT**

15 Southwest Energy Efficiency Project ("SWEEP"), through its undersigned counsel,
16 hereby provides notice that it has this day filed the responsive testimony of Jeff Schlegel in
17 partial opposition to the proposed Settlement Agreement in connection with the above-captioned
18 matter.

19 RESPECTFULLY SUBMITTED this 1st day of March, 2013.

20 ARIZONA CENTER FOR LAW IN
21 THE PUBLIC INTEREST

21 Arizona Corporation Commission

22 DOCKETED

23 MAR 1 2013

24 DOCKETED BY *TJM*

25 By *[Signature]*

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ORIGINAL and 13 COPIES of
the foregoing filed this 1st day
of March, 2013, with:

Docketing Supervisor
Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

COPIES of the foregoing
Electronically mailed this
1st day of March, 2013 to:

All Parties of Record



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE OF
ITS OPERATIONS THROUGHOUT THE STATE
OF ARIZONA.

DOCKET NO. E-01933A-12-0291

Responsive Testimony in Partial Opposition to the Proposed Settlement Agreement of

Jeff Schlegel

Southwest Energy Efficiency Project (SWEEP)

March 1, 2013

**Responsive Testimony in Partial Opposition to the Proposed Settlement Agreement
of Jeff Schlegel, SWEEP**

Docket No. E-01933A-12-0291

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Introduction

1
2
3 Q. Please state your name and business address.

4
5 A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson,
6 Arizona 85704-3224.

7
8 Q. Did you submit testimony in this proceeding?

9
10 A. Yes. I filed direct testimony, direct rate design testimony, and testimony in partial opposition
11 to the proposed Settlement Agreement on behalf of the Southwest Energy Efficiency Project
12 (SWEEP).

13
14 Q. Have there been any changes in your qualifications or representation of SWEEP?

15
16 A. No.

17
18 Q. What is the purpose of your responsive testimony herein?

19
20 A. In my responsive testimony I address several issues discussed in the Direct Testimony in
21 Support of the Settlement Agreement of Kevin Higgins on behalf of Freeport McMoRan and
22 AECC, in the section of his Direct Testimony responding to the letter from Commissioner
23 Pierce.

24
25
26 **Kevin Higgins' Responses to Commissioner Pierce's Letter**

27
28 Q. In his Direct Testimony in Support of the Settlement Agreement on behalf of Freeport
29 McMoRan and AECC, Kevin Higgins testifies on several issues raised in the letter from
30 Commissioner Pierce dated February 1, 2013. Do you have any responses to his testimony?

31
32 A. Yes. In response below, I: (1) clarify that the energy efficiency cost recovery approach
33 proposed in the Settlement Agreement is not ratebasing; (2) note that there is nothing in the
34 proposed cost recovery approach per se that should cause TEP to seek a waiver from the
35 Commission's Energy Efficiency Rule or justify Commission approval of a waiver or
36 exemption from the Rule; and (3) document that investment in energy efficiency is
37 completely justified based on TEP's actual customer needs as established in TEP's 2012 IRP,
38 which is precisely what should happen, as Commissioner Pierce indicated in his letter.

39
40 Q. Please clarify the cost-recovery approach proposed in the Settlement Agreement for
41 recovering energy efficiency program costs.

42
43 A. The Settlement Agreement proposes the Energy Efficiency Resource Plan (EERP), which
44 would amortize the energy efficiency program costs as a regulatory asset and recover those
45 costs over five years through the TEP Demand Side Management Surcharge (DSMS) rather

1 than in its base rates. This amortization proposal for the EERP is not ratebasing, even though
2 it was labeled as such in Commissioner Pierce's letter and repeated by Mr. Higgins in his
3 testimony. The EERP should not be confused with ratebasing or with how TEP would
4 recover an investment in a generation plant. Again, under the EERP, TEP would amortize
5 and recover the energy efficiency program costs over a five-year period using a regulatory
6 asset.

7
8 This lack of precise terminology has apparently caused some to perceive that TEP would
9 receive large earnings or a high return on investment from its investments in energy
10 efficiency. The facts are that this perception is not true. As noted in my Direct Testimony in
11 Partial Opposition to the Settlement Agreement (p. 13), TEP under the EERP does not have a
12 large or significant financial incentive to invest more in energy efficiency, and TEP would
13 not be receiving a financial windfall for funding energy efficiency. Essentially, TEP would
14 be recovering the carrying costs of the regulatory asset.

15
16 Q. In his letter, Commissioner Pierce states that he "would expect parties who advocate for the
17 adoption of a settlement agreement that would allow TEP to rate base its energy efficiency
18 and demand-side management costs, to simultaneously advocate for TEP to be permanently
19 exempted from the Commission's energy efficiency rules." Mr. Higgins responded by
20 stating: "Commissioner Pierce's point is well taken" (p. 13) and "...the Commission could
21 consider amending the EE Rules to address the situation of an electric utility that recovers its
22 EE funding using a return on investment approach" (p. 14). Do you agree?

23
24 A. No. First, as noted above, the EERP is not ratebasing, and the EERP (or for that matter a
25 return on investment approach generically) would not result in large earnings or a high return
26 on investment for TEP. Therefore I question the underlying assumption or premise.

27
28 Second, nothing in the proposed cost recovery approach per se should cause TEP to seek a
29 waiver from the Commission's Energy Efficiency Rule or justify Commission approval of a
30 waiver or exemption from the Rule. The EERP is a cost recovery approach for energy
31 efficiency programs, and a mechanism for TEP to recover its relevant carrying costs. The
32 EERP proposal is not a major shift in energy efficiency or energy resource policy. Nothing
33 in the EERP per se directly affects the level of energy efficiency that TEP will pursue or
34 achieve. Such proposals, discussions, and Commission approvals regarding the level of
35 energy efficiency are processed through the EE Implementation Plans. The requirements in
36 the Commission's EE Rule are considered as part of the EE Implementation Plan process.

37
38 The Commission's Energy Efficiency Rule is designed to ensure a minimum level of
39 performance by regulated utilities in achieving cost-effective energy efficiency that lowers
40 costs for customers and achieves other benefits for customers and the electric system, as set
41 forth in the Rule. The EE Rule was unanimously approved by the Commission. The benefits
42 of cost-effective energy efficiency and the opportunities for increasing energy efficiency to
43 benefit customers and reduce utility bills and total customer costs remain very large today.
44 The provisions set forth by the Commission in the EE Rule are appropriate and necessary
45 today to ensure the minimum level of utility performance in energy efficiency. There is

1 nothing in the EERP, or in the Settlement Agreement overall, that would justify TEP seeking
2 a waiver or the Commission granting a waiver or permanent exemption from the EE Rule.
3

4 Q. In his letter, Commissioner Pierce also commented on energy efficiency and the IRP process.
5 Do the TEP EERP and the level of energy efficiency proposed in the Settlement Agreement
6 circumvent the IRP process?
7

8 A. No. The data from the TEP 2012 IRP, which I presented in summary in my Direct Testimony
9 in Partial Opposition to the Settlement Agreement (pgs. 4-12), clearly demonstrate that there
10 is no "short-circuit in the IRP process." Investment in energy efficiency is completely
11 justified based on TEP's actual customer needs as established in TEP's 2012 IRP – which is
12 precisely what should happen, as Commissioner Pierce indicated in his letter.
13

14 If anything, TEP should be planning to achieve more energy efficiency than has been
15 proposed in the Settlement Agreement based on the resource needs identified in the TEP
16 2012 IRP. If TEP under-invests in the energy efficiency documented in the 2012 IRP, and
17 then has to add other more costly resources to substitute for the lower-cost energy efficiency
18 resources identified in the TEP IRP, the total costs for TEP customers will be higher.
19

20 Q. Kevin Higgins also commented on the value of a separate DSM surcharge, discussed in
21 Commissioner Pierce's letter, and the transparency of costs for customers. What is your
22 response?
23

24 A. SWEEP remains comfortable with a separate surcharge for DSM. SWEEP also supports
25 increased transparency of utility costs and improving customer understanding regarding costs
26 and utility bills. In fact, as I have stated to the Commission on several occasions, SWEEP
27 advocates that all major costs, including the costs for each type of energy resource (coal,
28 natural gas, nuclear, renewables, energy efficiency, etc.) and the costs for other components
29 of the bill (transmission, distribution, metering/billing, taxes, etc.) should be disclosed and
30 displayed for customers, to increase the transparency of costs. SWEEP remains concerned
31 that disclosing the costs of energy efficiency without disclosing the costs of other resources
32 and components is unfair, inappropriate, and does not serve to meet an objective of increased
33 transparency for customers.
34
35

36 Conclusion

37
38

39 Q. Does this conclude your responsive testimony?
40

41 A. Yes.
42