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IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS 2013 DEMAND SIDE MANAGEMENT IMPLEMENTATION PLAN.	Docket No. E-01345A-12-0224 **SWEEP COMMENTS ON THE RECOMMENDED ORDER AND PROPOSED AMENDMENTS**

ORIGINAL

COMMENTS THE SOUTHWEST ENERGY EFFICIENCY PROJECT

The Southwest Energy Efficiency Project ("SWEEP") appreciates the opportunity to submit these comments on Arizona Public Service Company's ("APS") application for approval of its 2013 Demand Side Management Implementation Plan ("DSM Plan"). SWEEP also comments on three proposed amendments filed by RUCO on March 3, 2014, and on APS' comments and proposed amendments, filed yesterday, on the Staff Recommended Order.

SWEEP congratulates APS on meeting the energy savings requirements of the Energy Efficiency Standard in 2013, while spending less than the Commission-approved budget. SWEEP appreciates this accomplishment.

SWEEP Supports the Filing Submitted by the Residential Utility Consumer Office, with Three Proposed Amendments Supported by RUCO, APS, and SWEEP

SWEEP supports the three proposed amendments included in the March 3, 2014, filing of the Residential Utility Consumer Office.[1] These amendments are jointly supported by RUCO, APS, and SWEEP and are designed to support programs that are more cost efficient and that respond flexibly to changing customer demand, evolving marketing conditions, and emerging technologies. Specifically the amendments would:

1. **Enable APS to reduce rebates after noticing the Commission.**
   Presently, APS must receive Commission approval to reduce rebates. As a result, programs cannot flexibly respond to market changes, even when it would mean reducing costs for APS ratepayers.

2. **Enhance APS' ability to shift funds between programs in the same sector.**
   Currently, APS is limited in its ability to shift funds between programs in the same sector. As a result programs cannot ramp up or down in response to customer demand. The proposed amendment would increase the budget flexibility from the current limit of 25% of a program

[1] See: http://images.edocket.azcc.gov/docketpdf/0000151551.pdf

within a sector to 50%. (The flexibility does not apply to low income weatherization or schools.)

3. **Allow APS to implement new energy efficiency measures found to be cost effective by Staff <u>without</u> increasing the DSM Plan Budget or the DSM Surcharge.**
   Staff determined that four new energy efficiency measures are cost effective. If approved, this amendment would enable APS to provide more options for customers to reduce their utility bills without increasing program costs or the DSM surcharge. In this situation (in contrast to the circumstances for other utilities in recent EE proceedings before the Commission), Staff has reviewed the new measures and found them to be cost effective. Additionally, APS has updated the cost-effectiveness analysis of all measures using the most recent data and Staff's cost effectiveness model. APS has shared these updates with Staff, and these updates show that the new measures continue to be cost-effective.

SWEEP Strongly Opposes APS' "Resource Savings Initiative" Amendment

SWEEP strongly opposes APS' "Resource Savings Initiative" amendment, which, if approved by the Commission, would allow undefined and unspecified supply-side upgrades to count as energy efficiency savings towards compliance with the Energy Efficiency Standard.[2] APS' proposal is flawed and should be rejected by the Commission:

1. The APS "proposal" consists of a handful of sentences with no definition and insufficient detail. Despite repeated requests and suggestions from SWEEP, over a period of about two years, APS has failed to deliver a real proposal that describes the activities APS would undertake, the effects of the activities, the nature and amount of the "savings," and whether the activities are cost-effective. There simply is no real or adequately defined proposal for the Commission, Commission Staff, or stakeholders to review. As a result, it is not at all clear to SWEEP what the Commission has available to consider. Moreover, approval of APS' "proposal" could have unknown effects and unintended consequences.

2. APS should be undertaking activities to improve system efficiency anyway and currently has a financial incentive to do so. Indeed, when APS improves the efficiency of its operations between rate cases, those "savings" result in increased earnings for shareholders and not savings for customers.

3. Improving system efficiency is a fundamental responsibility of a monopoly utility. APS should be pursuing and implementing such supply-side upgrades to its serve its customers, without the need for additional credits or financial incentives. APS should not need encouragement in the form of a waiver from the Commission-approved EE Rule in order to exercise proper utility management and perform its fundamental responsibilities.

4. Staff found the transmission and distribution portion of the APS "proposal" to be "specifically prohibited" under the Energy Efficiency (EE) Rules,[3] and SWEEP agrees. In fact, the EE Rules were focused explicitly on customer end-use energy savings and providing direct utility bill savings to customers through the support of customer actions. This was addressed explicitly in the workshop process that led to the development of the EE Rules.

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[2] See: http://images.edocket.azcc.gov/docketpdf/0000151571.pdf
[3] See: http://images.edocket.azcc.gov/docketpdf/0000149209.pdf

5. APS could benefit in multiple ways financially from this "proposal." First, this "proposal" could qualify APS to receive an EE performance incentive in the first place.[4] Second, it could boost the total amount of the EE performance incentive that APS receives.[5] Third, APS could reap additional shareholder earnings from a return on investment for system improvements. And fourth, APS could earn operational savings (as discussed above). SWEEP maintains that APS should not need any additional credit or financial incentive to perform its basic and fundamental responsibilities as a utility. SWEEP further believes that an EE performance incentive should exist to support utility activities that are not already so clearly in the utility's inherent self-interest.

6. APS claims that its proposal would not create "so much as a dime in unrecovered fixed costs." This is not necessarily true. For example, some potential supply side investments such as Distribution Voltage Optimization could result in unrecovered fixed costs.[6] Additionally, APS could potentially claim unrecovered fixed costs from improvements to APS-leased facilities (again, this is not clear in APS' "proposal"). Because APS' "proposal" has no definition and insufficient detail, it is impossible to determine what the true costs and benefits of the "proposal" will be.

While SWEEP is open to considering savings from supply side investments toward achievement of the EE Rule, SWEEP believes APS' current "proposal" is overly broad and premature and could have unintended consequences with real ratepayer impacts. Instead, SWEEP recommends that APS develop a focused and detailed proposal in its next EE implementation plan filing. This new proposal should have real meat on its bones and would enable adequate review and consideration by the Commission, Commission Staff, and other stakeholders. This is what has been done in the other states that APS mentioned in its comments, and would be appropriate here.

SWEEP Strongly Opposes APS' "Building Codes and Appliance Standards" Amendment

SWEEP believes building energy codes are worthy of EE program support because they provide customer savings and benefits at low ratepayer cost. However we maintain that that current requirement in the EE Rule, which allows up to 33% credit for savings from building energy codes, provides more than sufficient credit for the influence and role of APS in the building energy code process. Consequently, SWEEP strongly opposes APS' "Building Codes and Appliance Standards" amendment.

SWEEP does not support increasing this percentage to anything higher than 33% as APS has proposed. After all, utilities are only one entity among many who are part of the building energy code adoption and implementation process. Thus utilities deserve only a portion of the credit for the energy savings that building energy codes deliver. SWEEP believes that the majority of the credit for the adoption and

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[4] APS is required to meet a minimum amount of the EE Rule's annual savings requirements in order to receive an EE performance incentive. By allowing APS to count energy savings from supply side investments toward achievement of the EE Rule, this "proposal" could make it possible for APS to earn an EE performance incentive when it might not otherwise.

[5] Once APS meets a minimum amount of the EE Rule's annual savings requirement, it becomes eligible to earn an EE performance incentive. The amount of the EE performance incentive depends on the utility's performance (e.g. the energy savings it delivers, etc.) If savings from this "proposal" are considered as part of this performance, this "proposal" could boost the total amount of the EE performance incentive that APS receives.

[6] Distribution Voltage Optimization or DVO is the practice of controlling distribution voltage levels resulting in increased efficiency. In practice, DVO utilizes centralized control and two-way communications to optimize the voltage along the feeder. The practice includes taking voltage readings from the end of the line at the customers' meters to ensure the voltage is as low as possible without violating the lowest ANSI 4 allowable voltage. The primary result is reduced system demand, and increased energy savings at the customer meter.

implementation of a building energy code, and the credit for the savings resulting from the code, should continue to go to the local jurisdiction. In fact, the local jurisdiction has the largest role and is the primary entity responsible for the energy saving outcomes that building energy codes deliver.

Notably, this issue was discussed extensively during the development of the EE Rules. Some Commissioners even questioned whether the utility should receive any savings credit at all. Ultimately, the Commission decided upon the 33% level approved in the Rule. Part of this decision hinged on the fact that independent evaluations in other states supported this level of credit and did not justify a higher level of credit.

SWEEP believes APS is overreaching with its proposal. We believe that the utility is attempting to take credit that far exceeds their influence and demonstrated performance, and we see no reason or justification for a change to the percent credit in the Rule.

SWEEP strongly urges the Commission to reject this proposal.

Respectfully submitted this 6th day of March 2014 by:

Jeff Schlegel Ellen Zuckerman

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Southwest Energy Efficiency Project

ORIGINAL and thirteen (13) copies filed this 6th day of March 2014, with:

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