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BEFORE THE ARIZONA CORPORATION COMMISSION

9 BOB STUMP, Chairman
10 GARY PIERCE
11 BRENDA BURNS
12 BOB BURNS
13 SUSAN BITTER SMITH

14 IN THE MATTER OF THE REORGANIZATION)
15 OF UNS ENERGY CORPORATION)
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DOCKET NO. E-04230A-14-0011
DOCKET NO. E-01933A-14-0011

NOTICE OF FILING DIRECT
TESTIMONY OF JEFF
SCHLEGEL ON BEHALF OF
SOUTHWEST ENERGY
EFFICIENCY PROJECT

Southwest Energy Efficiency Project ("SWEEP"), through its undersigned counsel,
hereby provides notice that it has this day filed the attached written direct testimony of Jeff
Schlegel.

Arizona Corporation Commission

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1 DATED this 30th day of April, 2014.

2 ARIZONA CENTER FOR LAW IN
3 THE PUBLIC INTEREST

4 By 
5 Timothy M. Hogan
6 202 E. McDowell Rd., Suite 153
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8 Attorneys for Southwest Energy Efficiency
9 Project

10
11 ORIGINAL and 13 COPIES of
12 the foregoing filed this 30th day
13 of April, 2014, with:

14 Docketing Supervisor
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17 1200 W. Washington
18 Phoenix, AZ 85007

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21 30th day of April, 2014 to:

22 All Parties of Record
23
24
25



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE REORGANIZATION
OF UNS ENERGY CORPORATION

Docket No. E-01933A-14-0011
Docket No. E-04230A-14-0011

Direct Testimony of

Jeff Schlegel

Southwest Energy Efficiency Project (SWEEP)

Wednesday, April 30, 2014

Direct Testimony of Jeff Schlegel, SWEEP
Docket No. E-01933A-14-0011 and No. E-04230A-14-0011

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Introduction

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Q. Please state your name and business address.

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

Q. For whom are you testifying?

A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP).

Q. Please describe the Southwest Energy Efficiency Project (SWEEP).

A. SWEEP is a public interest organization dedicated to advancing energy efficiency in order to promote customer benefits, economic prosperity, and environmental protection. SWEEP works in Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming. SWEEP works on state legislation; analysis of energy efficiency opportunities and potential; expansion and the design of state and utility energy efficiency programs; building energy codes and appliance standards; and voluntary partnerships with the private sector to advance energy efficiency. SWEEP collaborates with utilities, state agencies, environmental groups, universities, and energy specialists in the region. Foundations, the U.S. Department of Energy, and the U.S. Environmental Protection Agency fund SWEEP. I am the Arizona Representative for SWEEP.

Q. What are your professional qualifications?

A. I am an independent consultant specializing in policy analysis, evaluation and research, planning, and program design for energy efficiency programs and clean energy resources. I consult for public groups and government agencies; and I have been working in the field for over 25 years. In addition to my responsibilities with SWEEP, I am working or have worked extensively in many states that have effective energy efficiency programs, including California, Connecticut, Massachusetts, New Jersey, Vermont, and Wisconsin. In 1997 I received the Outstanding Achievement Award for the International Energy Program Evaluation Conference. I have testified before the Arizona Corporation Commission in many proceedings.

Q. What is the purpose of your testimony?

A. In my testimony, I will summarize the public interest in increasing electric energy efficiency; the UNS Energy plans for energy efficiency as a resource, including in its integrated resource plans (IRPs), and estimates of the future costs of energy efficiency savings; the history of energy efficiency offerings and their benefits for the customers of the UNS Energy operating companies (Tucson Electric Power,

1 UniSource Electric, and UniSource Gas); why energy efficiency should be
2 considered in the context of this proceeding as an important aspect of customer
3 value and as a resource for meeting customer needs; and SWEEP's
4 recommendations for how the Commission can ensure that there is full support
5 moving forward for energy efficiency in order to keep total energy costs low for
6 UNS Energy customers.

7 **The Public Interest in Increasing Electric Energy Efficiency**

8
9 Q. What is the public interest in increasing electric energy efficiency?

10
11 A. Electric energy efficiency is in the public interest. Increasing energy efficiency
12 provides significant and cost-effective benefits for all UNS Energy customers, the
13 electric system, the economy, and the environment.

14
15 Electric energy efficiency is a reliable energy resource that is less expensive than
16 other available energy resources. Consequently, increasing energy efficiency
17 saves consumers and businesses money through lower electric bills and the
18 deferral of unnecessary infrastructure. The result is lower total costs for
19 customers.

20
21 Increasing energy efficiency also reduces load growth; diversifies energy
22 resources; enhances the reliability of the electricity grid; reduces the amount of
23 water used for power generation; reduces air pollution; creates jobs that cannot be
24 outsourced; and improves the economy. In addition, meeting a portion of load
25 growth through increased energy efficiency can help to relieve system constraints
26 in load pockets. By reducing electricity demand, energy efficiency mitigates
27 electricity and fuel price increases and reduces customer vulnerability and
28 exposure to price volatility. Finally, energy efficiency does not rely on any fuel
29 and is not subject to shortages of supply or increased prices for natural gas or
30 other fuels.

31
32 Q. Do energy efficiency programs and services provide customer value and increase
33 utility customer satisfaction?

34
35 A. Yes. Energy efficiency programs provide customer value and increase utility
36 customer satisfaction by delivering many customer benefits including lower
37 utility bills; greater customer control and understanding over energy consumption;
38 and improved health, safety, and comfort of the home and workplace. J.D. Power
39 studies on residential customer satisfaction demonstrate that customers familiar
40 with electric utility energy efficiency programs are substantially more satisfied
41 with their utility than those who are not.¹ In Arizona, energy efficiency has

¹ See Arizona Public Service Company, "APS DSM Program Overview,"
<http://aceee.org/files/pdf/conferences/eer/2013/4E-Dobberpuhl.pdf>; and J.D. Power, "Price and
Billing/Payment are Primary Drivers of Increased Overall Customer Satisfaction with Electric

1 enabled utilities like Salt River Project and Arizona Public Service to increase
2 their high level of satisfaction among customers.²

3 **UNS Energy Operating Company Plans for and Costs of Energy Efficiency**
4

5 Q. Are the UNS Energy operating companies planning to meet customer energy
6 needs through energy efficiency?
7

8 A. Yes the operating companies are planning and are relying on energy efficiency to
9 meet customer energy needs over the next fifteen years. For instance the 2014
10 Integrated Resource Plan (IRP) of Tucson Electric Power (TEP) shows that the
11 utility needs additional energy resources to meet its load obligations through
12 2029. TEP plans to meet this capacity shortfall through a mixed portfolio of
13 resources that include demand-side energy efficiency resources and demand
14 response.
15

16 Q. What are the estimated costs for energy efficiency savings?
17

18 A. Energy efficiency costs significantly less than other energy resources. For
19 example in its 2014 Integrated Resource Plan (IRP), TEP identifies energy
20 efficiency as the lowest cost resource available, with a TEP-forecasted levelized
21 cost of energy of \$60/MWh (\$0.060/kWh).³ In comparison, the levelized cost of
22 new generation for other resources is substantially higher: TEP estimates natural
23 gas combined cycle generation costs between \$0.088-\$0.119/kWh; coal
24 generation costs \$0.125/kWh; and nuclear generation costs \$0.154/kWh.⁴
25 Notably, TEP's cost of energy efficiency in 2011-2013 was between \$0.006-
26 \$0.011/kWh⁵ — an amount significantly lower than the figure included in its IRP.
27 SWEEP estimates the future portfolio costs of energy efficiency savings at \$0.01-
28 \$0.04/kWh saved, lower than what TEP is estimating in its IRP but higher than
29 what TEP programs have actually experienced in recent years.

30 **The History of Energy Efficiency Offerings and Their Benefits for UNS Energy**
31 **Customers**
32

33 Q. Do the UNS Energy operating companies have a history of offering customer
34 energy efficiency programs?
35

Residential Utilities," <http://www.jdpower.com/press-releases/2013-electric-utility-residential-customer-satisfaction-study#sthash.QsPXF2ZL.dpuf>

² Ibid.

³ See ACC Docket E-00000V-13-0070, Tucson Electric Power 2014 Integrated Resource Plan, April 1, 2014.

⁴ Ibid.

⁵ See ACC Dockets E-00000U-14-0049, E-00000U-12-0068, and E-00000U-13-0031, Tucson Electric Power 2011, 2012, and 2013 Demand Side Management Reports.

1 A. Yes. UNS Energy's operating companies have a long history of providing energy
2 efficiency services. For example, TEP began offering customer energy efficiency
3 opportunities in the 1980s.⁶
4

5 Q. What types of programs do the UNS Energy operating companies offer?
6

7 A. The UNS Energy operating companies offer a comprehensive suite of energy
8 efficiency programs in order to deliver significant energy savings and consumer
9 benefits. Programs are designed to serve diverse customer groups and specific
10 energy needs. For example, UniSource Electric offers special residential programs
11 to target the two largest household energy uses – air conditioning and swimming
12 pools. Programs have also been designed to serve low-income ratepayers and
13 renters in multifamily housing units. TEP also has special programs designed to
14 serve commercial and industrial customers, including small businesses.
15

16 These programs have received national recognition for their successes. Last year,
17 the American Council for an Energy Efficient Economy recognized UniSource
18 Electric's Home Energy Assessment Program as "exemplary" as part of a national
19 review of utility energy efficiency programs. TEP's residential new construction
20 program has also served as a model for similar programs implemented by other
21 electric utilities.
22

23 Q. What have the UNS Energy operating companies' energy efficiency programs
24 accomplished?
25

26 A. The operating companies' cost-effective energy efficiency programs have
27 delivered significant economic, energy, and environmental benefits for customers.
28 For example, from 2009-2013, TEP reports that its demand side management
29 programs delivered net benefits exceeding \$230 million dollars and lifetime
30 energy savings exceeding 6,550GWh. These programs have also amassed
31 significant customer support as evidenced by the hundreds of handwritten and
32 email communications and public comments the Commission received during
33 recent hearings on TEP's rate case and energy efficiency implementation plan
34 proposals.

35 **Energy Efficiency as a Crucial Component of Customer Value in this Proceeding**
36

37 Q. Why should energy efficiency be considered in this proceeding?
38

39 A. Energy efficiency increases customer value; meets customer energy needs at
40 lower costs than other energy resources, and is a crucial energy resource for
41 serving customers now and in the future. The Commission, in approving any
42 order that reorganizes UNS Energy Corporation, should ensure that there is full

⁶ See ACC Docket Docket No. E-01933A-11-0055, Tucson Electric Power, Direct Testimony of David G. Hutchens, June 15, 2012.

1 support moving forward for the least cost energy resource – energy efficiency – in
2 order to ensure high customer value resulting from the reorganization. If UNS
3 Energy, Fortis, and FortisUS do not continue to support the full investment of
4 cost-effective energy efficiency, then the UNS Energy operating companies will
5 have to invest in other energy resources that are comparatively more expensive in
6 order to meet future needs. Such alternative investments would increase total
7 costs for customers.

8
9 Ensuring the acquisition of all cost-effective energy efficiency savings will
10 maximize the value and minimize total costs for customers. By definition, if the
11 UNS Energy companies do not acquire all cost-effective energy efficiency
12 savings in their service territories, then the total costs for customers will be higher
13 and customer value will decrease. The Commission should ensure that the UNS
14 Energy reorganization maximizes the value for customers and does not expose
15 customers to higher costs and higher risks associated with other energy resources.

16
17 Q. Does cost-effective energy efficiency have synergies with the conditions agreed to
18 by Fortis and FortisUS with respect to the operation of UNS Energy post-closing?
19

20 A. Yes. Cost-effective energy efficiency has important synergies with the conditions
21 agreed to by Fortis and FortisUS (“Fortis”). For example, Fortis agreed to
22 “maintain and if necessary improve their current quality of service.”⁷ As I
23 testified above, energy efficiency programs play a key role in ensuring customer
24 value and increasing customer satisfaction with utility service. Fortis also
25 committed to maintain or expand its support for “low income assistance
26 programs.”⁸ Notably, several energy efficiency programs offered by the UNS
27 Energy operating companies are designed specifically to provide assistance to
28 low-income customers, including the low-income weatherization program⁹ and
29 the multi-family housing efficiency program.¹⁰ Finally, cost-effective energy
30 efficiency helps UNS Energy, Fortis, and FortisUS to deliver on the promise of
31 being “key contributors to the economic development and well-being of the
32 communities they serve.”¹¹
33

34 Q. How should the Commission ensure that in the UNS Energy reorganization there
35 is full support moving forward for energy efficiency as a means to provide

⁷ See ACC Docket No. E-01933A-14-0011 and No. E-04230A-14-0011, Exhibit BVP-7, Direct Testimony of Barry V. Perry, January 24, 2014

⁸ *Ibid.*

⁹ The low-income weatherization program is designed to improve the energy efficiency of homes for customers whose income falls within the defined federal poverty guidelines. See Tucson Electric Power Company 2013 Demand Side Management Report.

¹⁰ The multi-family housing efficiency program is designed to promote energy efficiency in the residential multi-family sector, a sector characterized by a high low-income population. See UniSource Electric’s 2013 Demand Side Management Report and the Direct Testimony of Cynthia Zwick in this proceeding.

¹¹ See ACC Docket No. E-01933A-14-0011 and No. E-04230A-14-0011, Direct Testimony of H. Stanley Marshall, January 24, 2014

1 customer value, keep total energy costs low for customers, meet future energy
2 needs, and ensure that Fortis fulfills its commitments to customers and the
3 communities served?
4

5 A. UNS Energy and Fortis should commit specifically to, and the Commission in its
6 review and approval of the reorganization should ensure that UNS Energy and its
7 operating companies will:
8

- 9 1. Achieve all cost-effective energy efficiency, at least at the level of the
10 cumulative annual energy savings set forth in the current Electric Energy
11 Efficiency Rule and included in the current IRPs so long as the Commission
12 approves the energy efficiency programs necessary to achieve such savings
13 and provides adequate cost recovery, even if the Commission decides to
14 modify or suspend its Electric Energy Efficiency Rule;
15
- 16 2. As part of or in addition to the energy efficiency program budgets, increase
17 funding and support for low income weatherization to ensure that more low
18 income customers are able to reduce their utility bills as a result of the
19 reorganization;
20
- 21 3. Provide shareholder funding for specialized energy efficiency opportunities
22 and low income services that benefit the broader community including
23 targeted shareholder funding for energy efficiency in schools, energy
24 efficiency in city and county buildings, and community groups providing
25 energy and housing services to low income customers;
26
- 27 4. Offer financing support (i.e., credit enhancements) and/or financing capital for
28 financing of residential, small business, and municipal energy efficiency
29 projects, to help reduce the ratepayer costs of other energy efficiency
30 programs and increase customer participation; and
31
- 32 5. Provide support for the adoption and implementation of higher building
33 energy codes to achieve energy savings and reduce customer energy bills
34 while keeping ratepayer costs lower than the costs of retrofitting inefficient
35 new buildings after they are built.
36

37 Q. Has Fortis committed shareholder funds to support energy efficiency and low-
38 income customers in previous acquisitions?
39

40 A. Yes. When Fortis acquired Central Hudson Gas & Electric Corporation in 2013, it
41 committed \$5 million to assist low-income customers and to support economic
42 development programs.¹² These monies were allocated to reduce bill impacts for
43 low-income customers¹³ and to support economic development programs that
44 included provisions and shareholder funding for energy efficiency investments in

¹² See NYPSC Case 12-M-0192, Order Authorizing Acquisition Subject to Conditions, June 26, 2013

¹³ Ibid.

1 customer buildings and facilities.¹⁴

2 **Conclusion**

3
4 Q. Does this conclude your testimony?

5
6 A. Yes.

¹⁴ See NYPSC Case 12-M-0192, Modifications to Economic Development Plan, July 10, 2013