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BEFORE THE ARIZONA CORPORATION COMMISSION

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Bob Stump, Chairman
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IN THE MATTER OF THE COMMISSION'S INVESTIGATION TO ADDRESS ENERGY EFFICIENCY/DEMAND SIDE MANAGEMENT ("EE/DSM"), COST EFFECTIVENESS OF EE/DSM AS CURRENTLY ADMINISTERED, EE/DSM COST RECOVERY METHODOLOGIES (INCLUDING THE ENERGY EFFICIENCY RESOURCE PLAN PROPOSED IN THE TUCSON ELECTRIC POWER COMPANY RATE CASE SETTLEMENT AGREEMENT, DECISION NO. 73912), NEED OR NOT FOR EE/DSM PERFORMANCE INCENTIVES, EE/DSM AS PART OF THE COMMISSION'S INTEGRATED RESOURCE PLAN PROCESS, AND POSSIBLE MODIFICATION OF CURRENT EE/DSM AND INTEGRATED RESOURCE PLAN RULES.

DOCKET NO. E-00000XX-13-0214

Arizona Corporation Commission
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COMMENTS OF WESTERN RESOURCE ADVOCATES

Western Resource Advocates (WRA) hereby submits its comments on the possible amendments to the energy efficiency standard (A.A.C. R14-2-2401 *et seq.*, and A.A.C. R14-2-2501 *et seq.*) as set forth by Staff in its filing of November 4, 2014 in this docket.

1. **Staff's filing presents no reasons for and no analysis supporting radical changes to the current rules.** The filing proposes extensive changes to the Commission's energy efficiency policy but identifies no shortcomings in the current rule and does not present any analysis of the costs or effectiveness of the current rule or the proposed rule. Without a substantial, factual foundation for a massive change to current practice, there is no basis for changing the current energy efficiency standard and adopting the proposed changes.

2. **The current energy efficiency standard works well.**
    a. **The current standard is part of a very successful energy efficiency program developed in Arizona.** The utility and public benefits components of Arizona's energy efficiency programs and policies were ranked 12th in the nation (tied with

Hawaii and Iowa) in the American Council for an Energy-Efficient Economy's (ACEEE's) 2014 state scorecard.[1] Arizona Public Service Company's annualized incremental energy savings from its 2013 efficiency programs (excluding credits for codes and standards and demand response) amounted to 1.65% of its 2013 retail sales.[2] This large effect indicates that APS is a national leader in utility efficiency programs. APS's 2013 efficiency program cost was about $11 per lifetime MWh saved,[3] much less than APS's incremental cost of generating electricity. Thus, energy efficiency reduced utility costs. Moreover, this low cost indicates that there are still many opportunities for energy efficiency – utilities are not coming close to practical limits on efficiency.

b. **Energy efficiency programs save energy.** WRA conducted a statistical analysis of electricity savings due to state energy efficiency policies and programs, including utility programs, over the period 2007 to 2012. The study looked across the individual states to identify the effect of the strength of state energy efficiency policies and programs (as measured by ACEEE scorecard scores) on electricity sales. The study takes into account the effects on electricity use of changes in the economy, demographic factors, changes in electricity and gas prices, distributed solar energy, and changes in weather.[4] Based on these national trends, we found that, for the average state, if an ambitious efficiency program were in place (as measured by the ACEEE Scorecard scores), there would have been a **decline** in MWh of retail electricity sales from 2007 to 2012 in the range of 5% to 8%. In contrast, for the average state, if only a weak efficiency program were in place, there would have been an **increase** in retail electricity sales from 2007 to 2012 in the range of 1% to 3%. This difference in electricity use is attributable to state efficiency programs.

c. **Customers want energy efficiency programs**. The very success of utility efficiency programs is evidence that many customers want to save energy and that utility programs help them do that. APS indicated that about 40% of its customer have participated in its efficiency programs.[5] Further, energy efficiency programs help low income customers manage their electricity use and their electricity bills.

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[1] American Council for an Energy-Efficient Economy, *The 2014 State Energy Efficiency Scorecard*, Washington, DC, Report Number U1408, Table 8, pp. 23-24.

[2] Arizona Public Service Company, *2013 Demand Side Management Annual Progress Report*, February 28, 2014, Table 4. Retail sales from Pinnacle West Capital Corporation, *2013 Statistical Report for Financial Analysis*, p. 24.

[3] APS, *op.cit*, Tables 2b and 4. Costs consist of rebates and incentives, training and technical assistance, consumer education, implementation, marketing, planning and administration, measurement, evaluation, and research costs, and APS's performance incentive but exclude costs of demand response and codes and standards. No lifetime energy savings are reported for demand response and codes and standards.

[4] David Berry and Lucy Yueming Qiu, "Energy Savings from State Electric Energy Efficiency Programs, 2007-2012." We conducted statistical analyses of the impact of the strength of state efficiency programs and policies on the volume of retail electricity sales using ordinary least squares, instrumental variable regression, and a fixed effects panel regression model.

[5] Quoted in an article by Ryan Randazzo, "More Popular than Solar, but on the Chopping Block," *Arizona Republic*, November 15, 2014, p. A1.

d. **The current standard provides sufficient flexibility to accommodate changes in efficiency programs over time.** For example, we expect that market transformation programs may play an even greater role, going forward. Market transformation makes energy efficiency a customary and routine practice. It results from entrepreneurs seeking opportunities to offer efficiency programs in the marketplace and from creation of social capital to advance energy efficiency.[6] Utility programs could gradually put more emphasis on advancing market transformation.

3. **The proposed rule changes are not in the public interest.**
   a. **Under the proposed changes, there is no long-term guidance to utilities about what is expected.** Arizona's utilities have designed and implemented highly successful efficiency programs under the current rule. Without known long term requirements, energy efficiency programs are likely to falter and the imperative for utilities to support energy efficiency over the long run will diminish. Utilities will move away from supporting energy efficiency, including long-term innovative market transformation efforts that build market and societal capabilities to sustain energy efficiency. Because the proposed rule modifications focus on narrow definitions of cost-effectiveness (the RIM test, discussed below) and eliminate long term efficiency requirements, utilities will have no motivation to help establish market and social processes that reduce their revenues through energy efficiency even though customers would be better off.
   b. **The RIM (ratepayer impact measure) test proposed in the rule modifications typically works against programs and measures that improve the long-term welfare of society**. The RIM test puts a heavy emphasis on utility lost revenues and potential rate changes to nonparticipants. However, the RIM test misses the big picture -- with energy efficiency programs that pass the utility cost test or societal cost test or total resource cost test, customers' bills or energy service costs in the aggregate go down. Yet, under the RIM test, many efficiency programs that benefit customers would fail and many of the approved programs now in place in Arizona would be eliminated. Such a perverse outcome does not reflect the public interest. The RIM test also overlooks the fact that many of today's non-participants will be tomorrow's efficiency program participants. In addition, the RIM test will focus the Commission on the past (utility sunk costs) which it cannot change, as opposed to

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[6] As an example of entrepreneurship, several presenters in Commissioner Bob Burns' innovation workshops (Docket No. E-00000J-13-0375) described their use of big data to assist clients in improving energy efficiency. Social capital consists of shared norms, expectations, and understanding. With regard to energy efficiency, social capital can be created by developing and making use of trust within a community, empowering community members to take ownership of efficiency opportunities and programs, using social networks to increase efficiency program participation, and using partnerships with other organizations to enlarge the partners' capabilities. These components of social capital are often mobilized through community organizations that educate consumers, provide personalized assistance to consumers, train contractors, provide efficiency measures, and so forth.

considering the future which it can affect. Thus, the RIM test is at best a secondary or tertiary piece of information; no state uses the RIM test as a primary test.[7]

c. **Use of the RIM test in resource planning is illogical and inconsistent**. Under the proposal, energy efficiency would be evaluated as part of resource planning (proposed R14-2-2404A). However, use of the RIM test is not consistent with the way the Commission and utilities review supply-side resources in resource planning. It is illogical, and counter to the purpose of resource planning, to evaluate demand side resources on a different basis than supply side resources.
d. **Treatment of DSM measures as utility investments raises questions**. First, changing the method of cost recovery is likely to increase the cost of efficiency programs to ratepayers as it would recover the utility's cost of capital as a program cost. Also, legacy costs will build up over time with interest. Second, under the proposed rule change, the incentive to run a good program is blunted. The utility is rewarded even if its efficiency programs are of marginal net benefit. In contrast, a well-crafted performance incentive ties rewards to development and implementation of more effective and ambitious programs that benefit customers.
e. **The method for evaluating energy efficiency is not transparent.** The revised rule requires use of Staff's methodology for calculating costs and benefits (R14-2-2407 as proposed) but, to our knowledge, Staff's methodology is not public, nor has it been reviewed by the Commission in public to determine if it reflects best practices. If the Commission is going to rely on Staff's methodology, that methodology should be subject to public review and revision as appropriate.
f. **Because the Commission oversees utilities for the long-term benefit of customers, the societal cost test is appropriate.** The current rules employ the societal test. In WRA's experience, the total resource cost test, the societal cost test, and the utility cost test are all informative. Most states use the total resource cost test as their primary indicator of program value.[8]
g. **Utilities should be able to modify program designs; otherwise there is no recognition of the role of learning.** Proposed rule R14-2-2410 C appears to require a utility to terminate a program that is not cost effective without an opportunity to modify the program to make it cost effective. Such a policy unrealistically assumes perfect foresight and deprives consumers of the benefits of modified programs.

4. Conclusions. The appropriate standard for the Commission to use in reviewing the proposed rule changes is the ***public*** interest. As explained above, the proposed rule changes are not in the public interest because they make Arizona worse off. No evidence has been presented to support extreme changes in Arizona's energy efficiency standards but there is lots of evidence indicating that the current energy efficiency policies have fostered significant

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[7] Martin Kushler, Seth Nowak and Patti Witte: *A National Survey of State Policies and Practices for the Evaluation of Ratepayer-Funded Energy Efficiency Programs*, ACEEE Report U122, Feb 2012, Table B-5 (pp. 59-60). Virginia did use the RIM test as a primary test but, in 2012, changed its tests (Code of Virginia, C. 821, §§ 56-576), https://lis.virginia.gov/cgi-bin/legp604.exe?000+cod+56-576.

[8] Kushler et al., *op. cit.*

beneficial change and can continue to benefit Arizona. WRA urges the Commission to leave the current efficiency standards in place.

Respectfully submitted this 18th day of November, 2014.

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Original and 13 copies filed with Docket Control; electronic copies to parties of record.
WRA will accept email service in this matter.