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IN THE MATTER OF ENERGY EFFICIENCY & INTEGRATED RESOURCE PLANNING.

Docket No. E-00000XX-13-0214

ORIGINAL

RUCO'S COMMENTS

In response to Staff's request for informal comment, RUCO offers the following comments on the draft Energy Efficiency/Demand Side Management Rules ("EE Rules"). RUCO believes in a diverse and balanced portfolio of energy resources. RUCO looks to energy cost savings on the demand side as a valuable resource. Energy efficiency is the cheapest way to meet energy needs at this time. It reduces total costs for ratepayers, defers system fixed costs, and puts resources in ratepayers' hands. RUCO believes that a diversified portfolio that seeks to lower customers costs must utilize cost effective energy efficiency.

1) INTRODUCTION

At their inception, Arizona's EE Rules were applauded for setting some of the highest energy efficiency standards in the nation. Arizona is often looked at in a very favorable light for its energy efficiency standards and the positive energy savings associated with the EE Rules. Recently, the importance of Arizona's EE Rules to Arizona has been highlighted by the EPA's new 111(d) Rule. Arizona is going to be unquestionably one of the states most effected by the new standards and perhaps the only salvation is energy efficiency. With 111(d), now surely is not the time to scale back on energy efficiency.

RUCO views cost effective energy efficiency as a type of "hedge" just as much as a resource. Putting energy technology into the hands of customers is beneficial for a variety of reasons and a major one is the reduced potential for stranded costs. Energy efficiency is truly a buckshot approach to the demand side of the equation. Energy efficiency measures offset baseload, reduce peak, insulate consumers from fuel price volatility, mitigate the need for power plant ramping, address load pockets through geotargeting, and protect consumers from costly regulations being forced upon Arizona by the federal government. Every customer can participate, whether they are a homeowner, renter, apartment dweller, or mobile homeowner. The question becomes how we can best deploy and maximize this resource to Arizona's advantage.

2) THE COMMISSION SHOULD NOT ADOPT STAFF'S PROPOSED MODIFICATIONS

Staff's proposed EE Rules will be a step backward – in effect the Rules will establish "goals" and relax, if not eliminate, energy efficiency requirements in Arizona. RUCO cannot support the proposed modifications to the EE Rules for several reasons. First, there has been no evidence presented to show that energy efficiency is not cost effective. Second, the Commission has complete control over the implementation of the EE Rules. The current Rules allow the Commission alternatives if the Commission is not satisfied with the standard or costs in any given situation. Finally, applying a "goal" in a Company's IRP is vague at best. Is the goal a standard and hence what the Commission is considering a different standard for each Company? Is the goal simply a goal in the traditional sense? What are the repercussions of not reaching or achieving the goal?

Earlier this year, Commissioner Gary Pierce initiated a series of workshops to examine Arizona's energy efficiency programs and policies. RUCO attended these workshops and found them informative. However, these workshops did not reveal any compelling evidence that the Energy Efficiency Standards need to be abandon or significantly revised. If anything was confirmed, it was that existing policies work for ratepayers. They are delivering substantial benefits at a cost less than anticipated. In fact, RUCO was happy to learn about the wide spread touch of the programs. It was noted that 40 percent of APS customers have some type of interaction with APS energy efficiency programs. In addition, new programs being contemplated, such as conservation voltage reduction, could quickly and easily boost participation rates to close to 100 percent - making energy efficiency the one investment that enables every single ratepayer to benefit and participate.

RUCO believes that the workshop process did not go far enough. The notice for the investigation indicated that issues around the Integrated Resource Planning (IRP) process would be explored and discussed, yet almost all of the workshop discussions were on energy efficiency. RUCO was anticipating specific discussions around improvements to IRP. Notably, many stakeholders have requested such discussions for years. (This desire was also reiterated during the Commission's November 2014 IRP hearings). However, none of these discussions to reform IRP have occurred.

It was a surprise then to RUCO to see Staff's memorandum. Without defining a problem or providing a rationale, the proposal appears to suggest elimination of the Energy Efficiency Standards – policies that are working to reduce ratepayer costs (which RUCO supports). It also suggested that we force energy efficiency into the broken IRP process – a process that the Commission does not lead and that the utilities themselves are not using to justify investments. In fact, the only mention of problems with energy efficiency have come from press interviews with one commissioner.

While RUCO believes there are potential areas of improvement with energy efficiency, elimination of the Energy Efficiency Standards and revisions to the EE Rules are not the solution. If anything, forcing energy efficiency into the broken IRP process would diminish the Commission's role in this arena, potentially eliminating the Commission's ability to steer and oversee energy efficiency investments moving forward.

Currently, the Commission has considerable flexibility to steer and oversee energy efficiency investments. Through the annual DSM plan review and approval process, the Commission can adjust the scope and pace of energy efficiency investment. For example, it can grant waivers to utilities that fall behind or that have higher than expected program costs. To the extent that the Commission wants to improve and make tweaks to the cost effectiveness evaluation, it has orders in Decision Nos. 73089, 72747, and 73229 to bring in an independent outside consultant to lead a process to explore effective options for cost-effectiveness. All of this flexibility already exists and does not require a rule change. If anything, striking Standards that have proven very effective and transitioning them into a flawed process would be counterintuitive and would put ratepayers at great financial risk.

RUCO also noticed that changes have been proposed to the cost effectiveness screening methodology for energy efficiency. RUCO has spent considerable time reviewing and researching the appropriate cost test for evaluating energy efficiency. The Commission has used the societal cost test in Arizona for about twenty-five years. RUCO continues to support this methodology as the ***primary*** way to evaluate energy efficiency investments. RUCO also thinks there is value in looking at all five cost effectiveness tests. In fact, we review all five tests when reviewing the demand side management plans of utilities such as

Tucson Electric Power. However, as is standard practice in other states, only the societal cost test or the total resource cost test should be used as the ***primary*** method for evaluating efficiency investments. Moreover, the ***primary*** screening methodology that the Commission uses should capture the long-term ratepayer benefits of energy efficiency. Additionally, it should ***not*** consider authorized sunk costs as a cost of energy efficiency. After all, customers would pay for these authorized sunk costs regardless of whether or not we save energy. Thus, if the Commission does not approve of certain sunk costs, they should not authorize them in the first place. Finally, when the Commission makes decisions on the basis of sunk costs, economic decisions are distorted moving forward, locking in old technology and discouraging innovation.

3) CONCLUSION

For all of these reasons, RUCO opposes the Staff proposal. RUCO respectfully recommends the Commission forego any further consideration of the Staff proposal dated November 4, 2014. If, despite RUCO's comments, the Commission decides to continue its consideration of the Staff proposal, RUCO emphasizes that the Commission should hold a hearing or other public process to get the facts out regarding the impact of this major policy departure (including the financial impact to ratepayers) and reasons behind this somewhat out-of-the-blue proposal. More facts about the proposal and a clear and complete rationale are needed and should be provided by Staff prior to consideration by the Commission. Finally, RUCO would like to reserve its right to file additional supplemental comments to address the specific rules and other issues not addressed in these comments.

RESPECTFULLY SUBMITTED this 18th day of November, 2014.

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