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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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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 **APS'S RESPONSE TO REQUEST FOR INFORMAL COMMENT RE POSSIBLE AMENDMENTS TO ENERGY EFFICIENCY RULES**

Arizona Public Service Company respectfully submits the following comments in response to the Arizona Corporation Commission's Request for Informal Comment regarding the possible amendments to the energy efficiency rules, A.A.C. R14-2-2401 *et seq.* APS does not believe that the current energy Efficiency Standard (EES) needs to be modified at this time.

Energy reducing activities accomplished pursuant to the rules serve a valuable role in Arizona's energy future. Energy efficiency has the potential to help reduce peak load and defer energy purchases or generation facilities, both of which can help APS provide reliable and reasonably priced electric service in Arizona. In addition, research demonstrates that customer satisfaction is improved by having energy efficiency programs. Since its implementation in 2010, APS has been striving toward compliance with the current EES, which calls for cumulative first-year savings from demand-side management (DSM) programs – including energy efficiency (EE) and demand response (DR) programs – equivalent to 22% of the prior year's retail sales by 2020. APS has been successful in meeting its annual milestones toward the EES in 2011, 2012, and 2013. For these reasons, APS does not believe the current EES needs to be modified at this time.

APS opposes certain other of the proposed rules changes as well. For example, APS opposes changes that would limit the types and amounts of energy savings that may be counted toward the EES. APS also does not support the removal of its ability to count pre-rule energy savings toward compliance with the EES or the removal of the persistence provision as this too limits the ability of utilities to count savings from EE measures. APS opposes the elimination of a performance incentive. APS has worked diligently with stakeholders and the Commission over the past few years to develop a performance incentive mechanism that properly incents EE activities. The currently approved structure is both effective and fair, and APS believes it should continue. APS also has concerns surrounding what appears to be ambiguity in the proposed amended rules regarding cost recovery methods and the potential application of the RIM test. APS would oppose any change that eliminates concurrent cost recovery of EE expenses. Finally, APS has concerns regarding the proposed integration between the Integrated Resource Plan (IRP) and EES. The proposed rules indicate that the Commission would set an EE goal for each utility through the IRP process. APS's next IRP is not due to be filed until 2016 and likely would not be considered or acknowledged until early 2017. Thus, it is unclear what standards would govern utilities in the interim.

Despite its success in meeting the annual EES milestones thus far, APS is concerned about the bill impacts to customers required to meet the ever increasing annual milestones going forward. Thus, APS would understand if the Commission chooses to address these concerns now and opens a rule making. APS would support consideration of certain initiatives to improve the cost-effectiveness of achieving future compliance with the current or any future EES. For example, APS supports consideration of the following changes contained in the proposed rule: removal of the 10% cap on savings from DR programs, utilizing the IRP process to better determine the level and types of EE needed on the system, and allowing savings from the improvement of delivery systems to count toward the EES. In addition, APS would support proposed rule changes that remove financial disincentives for implementing EE and changes that allow utilities to count all cost-effective energy savings towards compliance, such as energy savings from generation and facilities improvements undertaken by utilities, and savings resulting from rate plans that alter customer behavior.

CONCLUSION

Any changes to the rules should strive to make EE more cost effective, avoid creating financial disincentives to achieving greater efficiency, and better align and integrate EE programs with overall system needs. Attached as Exhibit A are APS's comments on a rule-by-rule basis. APS appreciates the work the Commission has undertaken on the proposed rules and welcomes the opportunity to participate in a continuing dialogue regarding how this beneficial resource can be maintained for Arizona utility customers.

RESPECTFULLY SUBMITTED this 18th day of November 2014.

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EXHIBIT A

APS's specific comments to the proposed amendments to the energy efficiency rules, A.A.C. R14-2-2401 *et seq.*

R14-2-2404 Energy Efficiency Standard

- APS does not believe the existing Energy Efficiency Standard (EES) needs to be modified at this time.
- APS does not support the removal of the provision that allows utilities to count towards EES compliance energy savings achieved through energy efficiency (EE) programs prior to 2011 when the EES took effect.
- APS does not support elimination of the persistence provision as discussed in more detail below.

R14-2-2404 EE Goal (new section)

- The timing and specifics about how future Integrated Resource Plans (IRP) and subsequent Demand Side Management (DSM) Implementation Plans will be integrated and approved is unclear. Further, it is unclear how utilities will transition from the current process to the proposed new process. For example, currently, APS has filed an IRP that includes EE at a level to be in compliance with the current EES. The next IRP filing will occur in 2016. Our interpretation of the transition to an IRP-driven approach for EE would be that our 2016 IRP would determine the level and type of EE that we would propose in our 2018 DSM Implementation Plan filed by June 1, 2017. Again, this is because the earliest IRP filing that could be used to direct future DSM would be filed in 2016 and decided in early 2017. APS would support this timing and approach, but it is unclear whether this is what the proposed rule intends.
- On a going forward basis, APS anticipates that utilities will need to be on a 3-5 year planning cycle for determining EE through the IRP. This recommendation is driven by the lead time necessary to allow utilities to plan for future supply and demand-side resources, and also by the market reality that a utility cannot feasibly turn on and turn off EE programs in a shorter period of time without severely jeopardizing future customer participation.
- APS supports that savings from Building Codes and Appliance Standards should be counted toward the EE goal each year since these codes and standards impact the baseline efficiency that savings claimed from our EE programs are calculated from. Higher baselines from codes and standards mean potentially lower savings opportunities for our programs. In Decision No. 73089, APS received an order allowing it to count energy savings from Appliance Standards, as well as Building Codes. APS recommends that "Appliance Standards" be incorporated into the proposed rule.
- APS supports the recommendation that improvements to the utility delivery system should be counted toward the annual savings goal. Also, in Decision No. 74406, APS received approval to count toward compliance generation and facility improvements as part of its system savings initiatives. APS recommends that the proposed rule be modified to include savings from generation and facilities improvements made by the utility.

- APS supports the removal of the 10% cap on savings from demand response programs.
- The proposed amendment strikes the provision of persistence (R14-2-2404 Paragraph I). APS recommends that this important concept be retained and not deleted from the rules. Research supports that once a customer adopts an EE measure for a particular end use (such as replacing an incandescent light bulb with an LED bulb), that customer will not typically go back to a less efficient measure when the time comes to replace the original measure. In other words, the savings from the EE measure persist beyond the life of the initial measure. In the context of an EES, this is an important principle to ensure that all EE savings are being counted, even for measures with a lifetime that is shorter than the duration of the EES.

R14-2-2405 Implementation Plans

- APS supports the recommendation to file bi-annual DSM Implementation Plans in the odd numbered years because this will reduce administrative preparation and review time compared to filing annual plans.
- APS believes that the timing of the transition from the current schedule to the proposed schedule is ambiguous and that the sooner the transition to a bi-annual, IRP-driven DSM Implementation Plan could be achieved would be with the 2018 DSM Implementation Plan filed in 2017, as previously described.

R14-2-2406 DSM Tariffs

- It is APS's position that concurrent cost recovery is an essential element of the financial treatment of EE as a resource. APS interprets this section to mean that annual DSM costs could continue to be recovered through a tariff or adjustor mechanism on a concurrent basis, just as utilities are collecting DSM costs today.

R14-2-2407 Commission Review and Approval

- APS supports the concept of considering all five cost effectiveness tests (Societal Cost Test, Total Resource Cost, Utility Cost Test, Participant Cost Test, Ratepayer Impact Measure) in evaluating EE. Each test is designed to look at EE from a different perspective, so there is value in looking at all five tests. However, the proposed language on the specific use of each test as a criterion for program approval is ambiguous. For instance, in the proposed rule, it is unclear what happens to measures or programs that pass the UCT, but fail the RIM test.
- APS recommends that the language be modified to more clearly designate how the various tests would be used to establish program or measure cost effectiveness.
- APS suggests the following modification to the language in this section of the proposed rules:
    - The UCT should be the initial test to determine if a measure should be considered for additional analysis. Every measure would need to pass the UCT test to be included in a DSM portfolio.
    - The RIM test may be used for additional analysis that is performed only at the DSM portfolio level. Utilities should be encouraged to work with the mix of cost effective measures to maximize the RIM score of the entire EE portfolio, but also may consider other objectives of the programs. This application of

the RIM test would help assess whether the overall EE portfolio would minimize the rate impact on non-participating customers.
- APS supports the recommendation that Staff performs benefit/cost analysis on a representative sample of proposed DSM measures.

R14-2-2409 Reporting
- APS supports the recommended reporting changes including the change of the date of filing the Annual Progress Report from March 1st to April 1st to allow more time for completing all program verification and evaluations.
- APS also supports removing the current requirement for a September 1st semi-annual progress report.
- APS recommends that the rule language be modified to state that the proposed reporting requirements supersede all existing reporting requirements, rather than requiring utilities to request that provision in a future implementation plan.

R14-2-2410 Cost Recovery
- APS strongly supports that the financial disincentives for implementing EE as a resource comparable to other supply-side resources must be addressed and removed. This means that all three current mechanisms should be maintained and enhanced, including: the recovery of fixed costs lost from lower sales, a performance incentive to reward the delivery of energy efficiency at the lowest possible cost, and the concurrent recovery of program costs.
- APS does not oppose allowing utilities to choose to defer and capitalize DSM costs; however, capitalization should not be required of utilities. Utilities should be allowed to continue concurrent cost recovery through an adjustor or tariff.
- APS recommends that subpart C be modified to clarify that a utility may modify rather than be required to terminate programs or measures that are not cost effective or otherwise meeting expectations. Specifically, APS supports the inclusion of the words "or modify" between "terminate" and "the" on line two. As drafted, the proposed provision seems to remove any flexibility for the utility to address the root cause of the problem and resolve it in the next program period. APS would prefer to have the flexibility to address what might be a temporary situation and return the program or measure back to cost effectiveness.

R14-2-2411 Performance Incentives
- APS opposes the elimination of a Performance Incentive. The current Performance Incentive structure provides a strong incentive for utilities to perform well and is a critical element to ensuring that EE is on the same level playing field with other supply-side resources in terms of the financial impacts to the utility.

R14-2-2412 Cost Effectiveness
- As addressed above, APS believes that the application of the five cost effectiveness tests and their use in determining program and measure cost effectiveness is unclear. Please see APS's comments in Section R14-2-2407 for APS's recommendation on how to address this ambiguity.