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Docket Control
Arizona Corporation Commission
1200 West Washington Street
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ORIGINAL

Re: Notice of Filing – Joint Comments of TEP, UNS Electric and UNS Gas

In the Matter of Energy Efficiency and Integrated Resource Planning
Docket No. ~~RU~~ RE-00000XX-13-0214

Pursuant to the November 21, 2014 Procedural Order in this docket, Tucson Electric Power Company, UNS Electric, Inc. and UNS Gas, Inc. hereby submit their Joint Comments on the draft Energy Efficiency Rules docketed on November 4, 2014.

Respectfully submitted,

Bradley S. Carroll

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Tucson Electric Power Company, UNS Electric, Inc. and UNS Gas, Inc.

Joint Response to Request for Informal Comment on Energy Efficiency Rules
In the Matter of the Commission's Investigation to Address Energy Efficiency
(Docket No. E-00000XX-13-0214)

Tucson Electric Power Company ("TEP"), UNS Electric, Inc. ("UNSE") and UNS Gas, Inc. ("UNSG") (collectively, the "Companies") hereby submit these joint comments on possible amendments to the Arizona Corporation Commission's Energy Efficiency Rules ("EE Rules") as issued November 4, 2014, by Steven M. Olea, Director of the Utilities Division ("Staff") of the Arizona Corporation Commission (the "Commission").

A. Introduction

The Companies are committed to cost-effective energy efficiency. Customers benefit from predictable, well-designed and cost-effective programs from their local utilities that help them manage both their energy usage and their utility bills. TEP and UNSE rely on cost-effective energy efficiency as an integral component of their energy resource portfolios. Any changes to the EE Rules should provide the Companies with a better opportunity to achieve the optimal mix of cost-effective energy efficiency that meets the needs of our customers while helping to reduce peak load requirements and, in the future, reducing the need for investment in new generation.

Additional flexibility within the EE Rules could provide affected utilities with an opportunity to (i) design EE Plans that recognize the unique energy needs of customers living in different service territories; (ii) adopt and promote new technologies; (iii) simplify the administration of EE Plans; and (iv) evaluate and update EE Plans in conjunction with the integrated resource planning process. Moreover, flexible and inclusive EE Rules will help utilities formulate compliance strategies for new environmental regulations, such as the Environmental Protection Agency's (EPA's) proposed Clean Power Plan, in order to mitigate the future rate impact on Arizonans.

B. General Comments

The Companies' general comments on Staff's proposed rules ("Draft Rules") are summarized below.

1. **Affected utilities should not be subject to any new or modified EE Rules until after their next rate case.** Depending on the nature of any new or modified EE Rules, affected utilities might need to propose new rate designs or other changes in their next rate case proceedings.

2. **Cost recovery for EE programs should be timely and should include recovery of all EE plan expenses.** The Draft Rules create significant uncertainty about cost recovery and do not clearly provide for when or how utilities will recover costs associated with EE programs, particularly for existing, ongoing programs. Affected utilities should not have to wait until their next rate case to begin recovery of such

costs. DSM tariffs should be reset upon the approval of an affected utility's EE plan. If such costs are to be capitalized and treated like other rate base investments, the Companies recommend that the demand-side management ("DSM") tariff plan of administration follow a framework similar to the Energy Efficiency Resource Plan proposed by TEP in its 2012 rate case application. In addition, lost fixed costs should continue to be recovered through lost fixed cost recovery ("LFCR") mechanisms. The calculation of lost fixed costs should factor in all measurable sources of energy efficiency that count towards meeting EE goals or targets (as described in #4 below).

3. **The Companies support linking EE goals or targets with integrated resource plans ("IRPs").** The Companies believe that the IRP provides a better standard than the escalating annual goals included in the current EE Rules, which do not effectively account for changes that can occur in various service areas over time. Assuming appropriate cost recovery mechanisms are adopted, energy efficiency should be treated like conventional generation resources and evaluated using a utility's avoided cost of generation as determined in an IRP. TEP and UNSE already rely on cost-effective energy efficiency programs as key components of their respective energy portfolio diversification strategies. However, before EE can be effectively linked to an IRP portfolio, robust cost recovery mechanisms must be in place. The Draft Rules remove or cast doubt upon existing cost recovery mechanisms underlying current EE portfolios, including performance incentives. Moreover, the ACC must formally approve EE programs and the cost recovery mechanisms that support them. The current process of merely acknowledging IRPs would cast doubt on utilities' ability to recover the costs of any EE programs included in the IRP in a timely fashion.

4. **The Companies support broadening the definition of energy savings that count toward meeting EE goals or targets.** The Companies believe that all measurable energy efficiency savings should count toward meeting future EE goals or targets. These savings should include 100% of measurable building codes, efficient appliances, customer-directed energy efficiency, and utility investments in demand response, load management and energy delivery efficiencies. Utility grid upgrades that reduce energy losses and corresponding costs also should count toward EE goals or targets. Given the potential impact of the EPA's proposed Clean Power Plan, the Draft Rules should allow utilities to count as broad a spectrum of energy savings as possible.

5. **The Draft Rules should include a performances incentive option.** Performance incentives currently are integral to a utility's cost model and help align the utility's interests with the goals of the EE Rules. Performance incentives can create more efficient use of EE expenditures. Therefore, the Draft Rules should include an option similar to the existing A.A.C. R14-2-2411.

6. **The measurements for cost effectiveness should be transparent, clearly defined and uniform in their application across all affected utilities.** The Companies recommend that Staff's methodology for calculating cost effectiveness be clearly

defined in any future EE Rules. The Draft Rules include five tests to measure the cost-effectiveness of EE programs and measures. The cost component of those tests should be based on the avoided cost of generation as determined in a utility's IRP.

7. **Cost-effective EE programs and investments should be standardized across all affected utilities.** The new EE Rules should include a list of Commission-approved programs and investments that affected utilities can rely upon when designing their EE plans. However, this list would not preclude utilities from proposing new EE programs. As new programs and investments are approved, the list should be updated so that all Arizona ratepayers can benefit from cost-effective programs.

8. **The Companies support the flexibility for affected utilities to immediately terminate EE programs that are not cost effective and add programs that are cost effective.** The Draft Rules provide utilities with the ability to immediately start and stop programs depending on their cost-effectiveness. The Companies support this flexibility rather than waiting to terminate or implement such programs until the next progress report filing or IRP filing.

9. **The rights of affected utilities to request waivers from current and future EE Rules for good cause must be preserved.** The ability of utilities to meet EE goals or targets depends on several factors, many of which are out of their control. TEP and UNSE each have EE plans pending before the Commission that reflect the current EE Rules and include requests for waivers under A.A.C. R14-2-2419 of the Energy Efficiency Standard set forth in A.A.C.R14-2-2404B. The Companies request that any new or modified EE Rules continue to provide affected utilities with the ability to request waivers of any provision thereunder.

C. Conclusion

The Draft Rules provide a constructive starting position to discuss possible modifications of the current EE Rules. The Companies expect to provide further comments upon Staff's completion of rule amendments for a formal rulemaking in this matter.