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Re: Progress in Promoting Energy Efficiency in Arizona. Docket No. E-00000J-08-0314

Dear Parties to the Docket:

As you know, for the past several months this Commission has conducted workshops aimed at increasing energy efficiency efforts in Arizona and aligning utility incentives to better promote energy efficiency. While I am heartened by the progress that has been made to date, I had become concerned that the timeframe for these workshops and a likely rulemaking was lagging , possibly impairing the ability of Arizonans to more immediately benefit from energy efficiency measures implemented by the State's electric and natural gas utilities. However, my concerns in this regard were much alleviated by the schedule set out by Commission Staff today, placing the Workshops on a pathway to a mid-summer rulemaking.

With regard to the substance of the Workshops, it appears that some consensus exists for certain issues, such as establishing an energy efficiency standard, while other issues are more polarized. In recent workshops and technical meetings, it has become clear that a great deal of disagreement persists over whether Arizona should adopt mechanisms such as revenue decoupling or forecasting of energy savings with recovery in rates as incentives to energy efficiency. Nor do the Parties seem to believe the Commission should move forward with establishing an energy efficiency target without also setting forth a cost recovery and incentive mechanism designed to facilitate the achievement of that target.

In order to reach a middle ground in this process, I propose that the Parties move forward with analyzing an energy efficiency standard in which Arizona's regulated utilities would be required to meet an annual energy efficiency target, ramped up to 20 percent by 2020, which would be funded through a combination of performance incentives tied to the amount of energy efficiency accomplished and DSM expense recovery.[1] In the meantime, workshops could continue addressing more permanent structural ratemaking concepts such as decoupling and forecasting for possible future adoption.

More specifically, I propose that Arizona closely examine the energy efficiency policies adopted for Xcel Energy by the Colorado Public Service Commission, which provides an annual energy efficiency target, recovery of DSM expenses, an incentive tied to the energy savings achieved and a cap on the incentives of 20 percent of the utility's DSM expenditures. Similarly, in New Mexico, Commissioners are considering an energy efficiency model in which utilities are

[1] It would appear that Arizona Public Service Company has utilized a performance incentive approach in conducting the bill impact assessment provided to the Parties to the docket during today's workshop.

required to aggressively pursue energy efficiency for their customers and are permitted to recover separate performance incentives based on the kilowatt hours saved and the peak kilowatt hours saved. In both instances, the performance incentives are provided for through an existing DSM tariff, or adder.

In reviewing the filings before the Colorado Public Utilities Commission and the New Mexico Public Service Commission, I believe the Colorado and New Mexico approaches may provide a starting place for designing a near-term energy efficiency standard in Arizona. I would like Parties to file comments on this proposal in this Docket.

Finally, by way of signaling my own priorities as a Commissioner, I believe that it is important for the Commission, and the participants in this docket, to make this docket a matter of the highest priority this summer. Recently, several utility Companies have filed rate cases at the Commission, requesting higher rates. Of course, the Commission should process those applications in accordance with the law and the Commission's time clocks. But time is also ticking on the need for energy efficiency programs, which are a protective shield for consumers against the ill effects of rate increases. The Commission should proceed with deliberation, but also speed, in order to ensure that consumers have the greatest array of energy efficiency options available to them in this era of increasing energy costs.

I look forward to the continued work of the Parties on these and other issues during upcoming energy efficiency Workshops.

Sincerely,

Kris Mayes
Chairman

Cc: Commissioner Gary Pierce
Commissioner Sandra Kennedy
Commissioner Paul Newman
Commissioner Bob Stump
Ernest Johnson
Janice Alward
Lyn Farmer
Mike Kearns
Rebecca Wilder