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ARIZONA CORPORATION COMMISSION

April 6, 2009

Janice K. Brewer, Governor
Office of the Arizona Governor
1700 W. Washington Street
Phoenix, Arizona 85007

RE: State Energy Program Funding and Commission Assurances under the American Recovery and Reinvestment Act of 2009 (ARRA).

Dear Governor Brewer:

Thank you for your March 18, 2009 letter concerning the Corporation Commission's assurances regarding energy efficiency programs. As your letter stated these assurances are made in relation to our State receiving $3.1 billion under the Federal State Energy Program, a component of the American Recovery and Reinvestment Act of 2009. We are pleased to provide the following assurances that reflect our strong commitment to energy efficiency as an integral part of our regulatory oversight of the state's public service corporations.

The Arizona Corporation Commission understands and encourages the need for conservation of energy resources (gas and electric) to maintain adequate, dependable, reliable and affordable energy in Arizona. The Commission also understands that to accomplish energy conservation both public service corporations and consumers must play an active role. As such, the Commission has formally established policies and regulations to promote and achieve energy conservation.

Commission rules A.A.C. R14-2-213 and R14-2-313 require Class A and B electric and gas companies to implement conservation plans and file the plans with the Commission. Within each of these rules, public service corporations are required to develop programs to educate and assist consumers to reduce energy consumption and costs. Additionally, the Commission's Renewable Energy Standard and Tariff Rules (REST Rules), A.A.C. R14-2-1801 et seq., includes programs for customer self-directed renewable energy options, and distributed generation on a customers premises, and customer distributed renewable energy resources. The Commission also has adopted rules for net metering, A.A.C. R14-2-2301 through 2308, that require electric utilities to make available net metering to any electric consumer that the utility serves.

We also note that at the time of this response, the Commission is convening an energy efficiency and regulatory rate incentives Open Meeting and workshop for the promotion, encouragement and implementation of energy efficiency as an integral part of the Commission's broad rate setting authority under the Arizona Constitution, Article 15, as well as the Commission's statutory authority under Title 40 of the Arizona Revised Statutes. The Commission's regulatory authority under the Arizona Constitution and statutory provisions enables the Commission to carry out ratemaking policies that ensure that utility financial incentives are aligned with helping their customers use energy more efficiently. These ratemaking policies include: (1) timely cost recovery, (2) timely earnings for utilities, and (3) verifiable

efficiency savings that sustain or enhance utility customers' incentives to be more efficient. Therefore, we are pleased to provide the required assurances in each of these areas as is mandated under the ARRA.

Timely cost recovery. The Commission provides for timely cost recovery of the utilities' energy efficiency programs through rates, tariffs, surcharges and adjustments mechanisms that are established for those purposes. Also, consumer compensation for distributed generation is part of the REST Rules and is an important factor for the operation of the Commission's Net Metering rules.

Timely earnings for utilities. Similarly, the Commission sets rates and tariffs, including surcharges and adjustor mechanisms for the state's public service corporations to ensure timely earnings in order ensure that energy efficiency and our REST rules place our state's efforts at the forefront of both energy efficiency and reliance on renewable energy resources for our consumers.

Verifiable efficiency savings that sustain or enhance utility customers' incentives to be more energy efficient. In addition, the Commission requires verifiable efficiency savings for utilities' programs as incentives for the utilities and their customers. The Commission strongly supports verifiable efficiency savings as a cornerstone of its regulatory approval of the energy efficiency programs it approves in the course of its consideration of these matters.

Again, the Commission is pleased to provide you these assurances that reflect the Commission's present and continued commitment to promote, enhance and encourage our state's utilities and their consumers in an on-going effort to make Arizona a leader in energy efficiency. We look forward to the opportunity to support our state's energy efficiency goals in partnership with federal goals through the federal stimulus funds under ARRA.

Sincerely,

Kristin K. Mayes
Chairman

Gary Pierce
Commissioner

Sandra D. Kennedy
Commissioner

Paul Newman
Commissioner

Bob Stump
Commissioner

Cc: Ernest Johnson
Janice Alward
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