MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: November 4, 2014

SUBJECT: REQUEST FOR INFORMAL COMMENT – Docket No. E-00000XX-13-0214
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

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Attached are draft rules containing possible amendments to the Commission's energy efficiency rules for both gas and electric utilities. The Commission encourages all interested parties to provide written comments on the draft rules. Comments should be submitted to Docket Control by November 18, 2014. Any comments filed may be considered in formulating proposed rule amendments for a formal rulemaking in this matter.

Please file the original and 13 copies of your comments with the Commission's Docket Control Center, 1200 West Washington Street, Phoenix, Arizona 85007. Please reference Docket No. E-00000XX-13-0214 on all comments submitted to the Commission in this matter.

Parties submitting comments will automatically be included on the service list in this matter. Interested parties that do not file comments but want to be included on the service list in this matter should send notice of their interest including a name, mailing address and email address to Docket Control. If you will accept email service of future filings in this docket, indicate your acceptance of email service on your filing. The Commission welcomes and appreciates the input of all interested parties in the development of these rules.

SMO:go
Originator: Steven Olea

Copy of the foregoing mailed this 3RD day of November, 2014, to:

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ARTICLE 24. ~~ELECTRIC~~ UTILITY ENERGY EFFICIENCY ~~STANDARDS~~

R14-2-2401. Definitions

In this Article, unless otherwise specified:

1. "Adjustment mechanism" means a Commission-approved provision in an affected utility's rate schedule allowing the affected utility to increase and decrease a certain rate or rates, in an established manner, when increases and decreases in specific costs are incurred by the affected utility.
2. "Affected utility" means a public service corporation that provides electric or gas service to retail customers in Arizona.
3. "Baseline" means the level of electricity or gas demand, electricity or gas consumption, and associated expenses estimated to occur in the absence of a specific DSM program, determined as provided in ~~R14-2-2413~~R14-2-2412.
4. "CHP" means combined heat and power, which is using a primary energy source to simultaneously produce electrical energy and useful process heat.
5. "Commission" means the Arizona Corporation Commission.
6. "Conventional energy resources" means energy resources that are non-renewable in nature, such as natural gas, coal, oil, and uranium.
7. ~~6~~. "Cost-effective" means that total incremental benefits from a DSM measure ~~or DSM program~~ exceed total incremental costs over the life of the DSM measure, as determined under ~~R14-2-2412~~R14-2-2411.
8. ~~7~~. "Customer" means the person or entity in whose name service is rendered to a single contiguous field, location, or facility, regardless of the number of meters at the field, location, or facility.
9. ~~8~~. "Delivery system" means the infrastructure through which an affected utility transmits and then distributes gas or electrical energy to its customers.
10. ~~9~~. "Demand savings" means the load reduction, measured in kW, occurring during a relevant peak period or periods as a direct result of energy efficiency and demand response programs.
11. ~~10~~. "Demand response" means modification of customers' electricity consumption patterns, affecting the timing or quantity of customer demand and usage, achieved through intentional actions taken by an affected utility or customer because of changes in prices, market conditions, or threats to system reliability.
12. ~~11~~. "Distributed generation" means the production of electricity on the customer's side of the meter, for use by the customer, through a process such as CHP.
13. ~~12~~. "DSM" means demand-side management, the implementation and maintenance of one or more DSM programs.
14. ~~13~~. "DSM measure" means any material, device, technology, educational program, pricing option, practice, or facility alteration designed to result in reduced peak demand, increased energy efficiency, or shifting of electricity consumption to off-peak periods and includes CHP used to displace space heating, water heating, or another load.
15. ~~14~~. "DSM program" means one or more DSM measures provided as part of a single offering to customers.
16. ~~15~~. "DSM tariff" means a Commission-approved schedule of rates designed to recover an affected utility's reasonable and prudent costs of complying with this Article.
17. ~~16~~. "Electric utility" means a public service corporation providing electric service to the public.
18. ~~17~~. "Energy efficiency" means the production or delivery of an equivalent level and quality of end-use electric or gas service using less energy, or the conservation of energy by end-use customers.
19. ~~18~~. "Energy efficiency ~~standard~~goal" means the reduction in retail energy sales, in percentage of kWh, required to be achieved through an affected utility's approved DSM programs ~~as prescribed in R14-2-2404.~~by pursuing cost-effective energy efficiency measures to achieve the Commission-approved energy efficiency goal based on the affected utility's resource plan.
20. ~~19~~. "Energy savings" means the reduction in a customer's energy consumption directly resulting from a DSM program, expressed in kWh, therms, or therm equivalents.
21. ~~20~~. "Energy service company" means a company that provides a broad range of services related to energy efficiency, including energy audits, the design and implementation of energy efficiency projects, and the installation and maintenance of energy efficiency measures.
22. ~~21~~. "Environmental benefits" means avoidance of costs for compliance, or reduction in environmental impacts, for things such as, but not limited to:
    a. Water use and water contamination,
    b. Monitoring storage and disposal of solid waste such as coal ash (bottom and fly),
    c. Health effects from burning fossil fuels, and
    d. Emissions from transportation and production of fuels and electricity.

~~22~~23. "Fuel-neutral" means without promoting or otherwise expressing bias regarding a customer's choice of one fuel over another.

24. "Gas" means either natural gas or propane.

25. "Gas utility" means a public service corporation providing gas service to the public.

~~23~~26. "Incremental benefits" means amounts saved through avoiding costs for fuel, purchased power, new capacity, transmission, distribution, and other cost items necessary to provide electric or gas utility service, along with other improvements in societal welfare, such as through avoided environmental impacts, including, but not limited to, water consumption savings, reduction in air emissions ~~reduction~~from power plants, reduction in coal ash, and reduction of nuclear waste.

~~24~~27. "Incremental costs" means the additional expenses of DSM measures, relative to baseline.

~~25~~28. "Independent program administrator" means an impartial third party employed to provide objective oversight of energy efficiency programs.

~~26~~29. "kW" means kilowatt.

~~27~~30. "kWh" means kilowatt-hour.

~~28~~31. "Leveraging" means combining resources to more effectively achieve an energy efficiency goal, or to achieve greater energy efficiency savings, than would be achieved without combining resources.

32. "Limited-income customer" means a customer with a below average level of household income, as defined in an affected utility's Commission-approved DSM program description.

33. "Load factor" means the average load divided by the peak load in a specified time period.

~~29~~34. "Load management" means actions taken or sponsored by an affected utility to reduce peak demands or improve system operating efficiency, such as direct control of customer demands through affected-utility-initiated interruption or cycling, thermal storage, or educational campaigns to encourage customers to shift loads.

~~30. "Low-income customer" means a customer with a below average level of household income, as defined in an affected utility's Commission-approved DSM program description.~~

~~31~~35. "Market transformation" means strategic efforts to induce lasting structural or behavioral changes in the market that result in increased energy efficiency.

~~32~~36. "Net benefits" means the incremental benefits resulting from DSM minus the incremental costs of DSM.

~~33~~37. "Non-market benefits" means improvements in societal welfare that are not bought or sold.

38. "Participant Test" means a cost-effectiveness test that measures the economics of a DSM program or measure from the perspective of the customer participating in the DSM program or measure. Benefits include bill savings, program incentives, and tax credits. Costs include incremental equipment and installation costs.

~~34~~39. "Program costs" means the expenses incurred by an affected utility as a result of developing, marketing, implementing, administering, and evaluating Commission-approved DSM programs.

40. "Ratepayer Impact Measure Test" means a cost effectiveness test that measures the impact of a DSM program or DSM measure on customer bills or rates. Costs include the costs incurred by the utility implementing the program or measure and lost revenue from reduced sales. Benefits include the utility's avoided energy and capacity costs that impact revenue requirements.

41. "RET" means a renewable energy resource technology utilizing an energy resource that is replaced rapidly by a natural, ongoing process and that displaces conventional energy resources otherwise used to provide energy to an affected utility's Arizona customers.

42. "RET program" means one or more RETs provided as part of a single offering to customers.

43. "Revenue decoupling" means a mechanism that reduces or eliminates the connection between sales volume and the recovery of an affected utility's Commission-approved cost of service.

~~35~~44. "Self-direction" means an option made available to qualifying customers of sufficient size, in which the amount of money paid by each qualifying customer toward DSM costs is tracked for the customer and made available for use by the customer for approved DSM investments upon application by the customer.

~~36~~45. "Societal Test" means a cost-effectiveness test of the net benefits of DSM programs that starts with the Total Resource Cost Test, but includes non-market benefits and costs to society.

~~37~~46. "Staff" means individuals working for the Commission's Utilities Division, whether as employees or through contract.

47. "Therm" means a unit of heat energy equal to 100,000 British Thermal Units.

~~38~~48. "Thermal envelope" means the collection of building surfaces, such as walls, windows, doors, floors, ceilings, and roofs, that separate interior conditioned (heated or cooled) spaces from the exterior environment.

49. "Therm equivalent" means a unit of energy, such as kWh, converted and stated in terms of therms.

~~39~~50. "Total Resource Cost Test" means a cost-effectiveness test that measures the net benefits of a DSM program or measure as a resource option, including incremental measure costs, incremental affected utility costs, and carrying

costs as a component of avoided capacity cost, but excluding incentives paid by affected utilities and non-market benefits to society.

~~45~~51. "Utility Cost Test" means a cost-effectiveness test that measures the net benefits of a DSM program or measure as a resource option based on the costs incurred by the utility implementing the program or measure and excluding any costs incurred by the participant. Benefits include the utility's avoided energy and capacity costs.

R14-2-2402. Applicability

This Article applies to each affected utility ~~classified as Class A according to R14-2-103(A)(3)(q), unless the affected utility is an electric distribution cooperative~~required to file a resource plan pursuant to R14-2-703(F) or that elects to offer DSM programs and receive cost recovery. ~~that has fewer than 25% of its customers in Arizona.~~

R14-2-2403. Goals and Objectives

A. An affected utility shall design each DSM program:
1. To be cost-effective, and
2. To accomplish at least one of the following:
   a. Energy efficiency,
   b. Load management, or
   c. Demand response.

B. An affected utility shall consider the following when planning and implementing a DSM program:
1. Whether the DSM program will achieve cost-effective energy savings and peak demand reductions;
2. Whether the DSM program will advance market transformation and achieve sustainable savings, reducing the need for future market interventions; and
3. Whether the affected utility can ensure a level of funding adequate to sustain the DSM program and allow the DSM program to achieve its targeted goals.

C. An affected utility shall:
1. Offer DSM programs that will provide an opportunity for all affected utility customer segments to participate, and
2. Allocate a portion of DSM resources specifically to ~~low~~limited-income customers.

~~**R14-2-2404. Energy Efficiency Standards**~~

~~**A.** Except as provided in R14-2-2418, in order to ensure reliable electric service at reasonable ratepayer rates and costs, by December 31, 2020, an affected utility shall, through cost-effective DSM energy efficiency programs, achieve cumulative annual energy savings, measured in kWh, equivalent to at least 22% of the affected utility's retail electric energy sales for calendar year 2019.~~

~~**B.** An affected utility shall, by the end of each calendar year, meet at least the cumulative annual energy efficiency standard listed in Table 1 for that calendar year. An illustrative example of how the required energy savings would be calculated is shown in Table 2. An illustrative example of how the standard could be met in 2020 is shown in Table 4.~~

~~**Table 1. Energy Efficiency Standard**~~

~~**CALENDAR YEAR**~~	~~**ENERGY EFFICIENCY STANDARD** (Cumulative Annual Energy Savings by the End of Each Calendar Year as a Percentage of the Retail Energy Sales in the Prior Calendar Year)~~
~~**2011**~~	~~1.25%~~
~~**2012**~~	~~3.00%~~
~~**2013**~~	~~5.00%~~
~~**2014**~~	~~7.25%~~
~~**2015**~~	~~9.50%~~
~~**2016**~~	~~12.00%~~
~~**2017**~~	~~14.50%~~
~~**2018**~~	~~17.00%~~

2019	19.50%
2020	22.00%

Table 2. Illustrative Example of Calculating Required Energy Savings

CALENDAR YEAR	A RETAIL SALES (kWh)	B ENERGY EFFICIENCY STANDARD	C REQUIRED CUMULATIVE ENERGY SAVINGS (B of current year × A of prior year)
2010	100,000,000		0
2011	100,750,000	1.25%	1,250,000
2012	101,017,500	3.00%	3,022,500
2013	101,069,925	5.00%	5,050,875
2014	100,915,646	7.25%	7,327,570
2015	100,821,094	9.50%	9,586,986
2016	100,517,711	12.00%	12,098,531
2017	100,293,499	14.50%	14,575,068
2018	100,116,043	17.00%	17,049,895
2019	99,986,628	19.50%	19,522,628
2020	99,902,384	22.00%	21,997,058

C. An affected utility's measured reductions in peak demand resulting from cost-effective demand response and load management programs may comprise up to two percentage points of the 22% energy efficiency standard, with peak demand reduction capability from demand response converted to an annual energy savings equivalent based on an assumed 50% annual load factor. The credit for demand response and load management peak demand reductions shall not exceed 10% of the energy efficiency standard set forth in subsection (B) for any year. The measured reductions in peak demand occurring during a calendar year after the effective date of this Article may be counted for that calendar year even if the demand response or load management program resulting in the reductions was implemented prior to the effective date of this Article.

D. An affected utility's energy savings resulting from DSM energy efficiency programs implemented before the effective date of this Article, but after 2004, may be credited toward meeting the energy efficiency standard set forth in subsection (B). The total energy savings credit for these pre-rules energy efficiency programs shall not exceed 4% of the affected utility's retail energy sales in calendar year 2005. A portion of the total energy savings credit for these pre-rules energy efficiency programs may be applied each year, from 2016 through 2020, as listed in Table 3, Column A.

Table 3. Credit for Pre-Rules Energy Savings

CALENDAR YEAR	A CREDIT FOR THE PRE-RULES ENERGY SAVINGS APPLIED IN EACH YEAR (Percentage of the Total Eligible Pre-Rules Cumulative Annual Energy Savings That Shall Be Applied in the Year)	B CUMULATIVE APPLICATION OF THE CREDIT FOR THE PRE-RULES ENERGY SAVINGS IN 2016-2020 (Percentage of the Total Eligible Pre-Rules Cumulative Annual Energy Savings That Are Credited by the End of Each Year)
2016	7.5%	7.5%
2017	15.0%	22.5%
2018	20.0%	42.5%
2019	25.0%	67.5%
2020	32.5%	100.0%

E. An affected utility may count toward meeting the standard up to one third of the energy savings, resulting from energy efficiency building codes, that are quantified and reported through a measurement and evaluation study undertaken by the affected utility.

F. An affected utility may count the energy savings from combined heat and power (CHP) installations that do not qualify under the Renewable Energy Standard toward meeting the energy efficiency standard.

G. An affected utility may count a customer's energy savings resulting from self-direction toward meeting the standard.

H. An affected utility's energy savings resulting from efficiency improvements to its delivery system may not be counted toward meeting the standard.

I. An affected utility's energy savings used to meet the energy efficiency standard will be assumed to continue through the year 2020 or, if expiring before the year 2020, to be replaced with a DSM energy efficiency program having at least the same level of efficiency.

Table 4. Illustrative Example of How the Energy Standard Could Be Met in 2020

	2020 Energy Efficiency Standard	2019 Retail Sales (kWh)	Required Cumulative Annual Energy Savings (kWh)
Total	22.00%	99,986,628	21,997,058
Breakdown of Savings and Credits Used To Meet 2020 Standard:			
			Cumulative Annual Energy Savings or Credit (kWh)
Demand Response Credit R14-2-2404(C)	Up to 2.00%		1,999,733
Pre-rules Savings Credit R14-2-2404(D)			1,100,000*
Building Code R14-2-2404(E)			1,000,000
CHP R14-2-2404(F)			500,000
Self-direction R14-2-2404(G)			100,000
Energy Efficiency R14-2-2404(A)			17,297,325
Total			21,997,058

~~* The total pre-rules savings credit is capped at 4% of 2005 retail energy sales, and the total credit is allocated over five years from 2016 to 2020. The credit shown above represents an estimate of the portion of the total credit that can be taken in 2020, or 32.5% of the total credit allowed.~~

R14-2-2404. Energy Efficiency Goal

A. Through the process of the Commission review of resource plans pursuant to R14-2-704, the Commission will set an energy efficiency goal for each affected utility required to file a resource plan pursuant to R14-2-703(F).

B. An affected utility may count toward meeting an energy efficiency goal up to one-third of the energy savings, resulting from energy efficiency building codes, that are quantified and reported through a measurement and evaluation study undertaken by the affected utility.

C. An affected utility may count the energy savings from CHP installations that do not qualify under the Renewable Energy Standard toward meeting an energy efficiency goal.

D. An affected utility may count a customer's energy savings resulting from self-direction toward meeting an energy efficiency goal.

E. An affected utility's energy savings resulting from efficiency improvements to its delivery system may be counted toward meeting an energy efficiency goal.

F. An affected utility's measured reductions in peak demand resulting from cost-effective demand response and load management programs may be counted toward meeting an energy efficiency goal, with peak demand reduction capability from demand response converted to an annual energy savings equivalent based on an assumed 50% annual load factor.

R14-2-2405. Implementation Plans

A. ~~Except as provided in R14-2-2418, on~~On June 1 of each odd year, ~~or annually at the election of each affected utility,~~ each affected utility shall file with Docket Control, for Commission review and approval, an implementation plan ~~describing how the affected utility intends to meet the energy efficiency goals as identified in the Integrated Resource Plan process standard~~ for the next ~~one or~~ two calendar years,~~. as applicable, except that the initial implementation plan shall be filed within 30 days of the effective date of this Article.~~

B. ~~The implementation plan shall include~~ including the following information:

1. How the affected utility intends to meet the Commission-set energy efficiency goal, if applicable;
2. ~~Except for the initial implementation plan, a~~A description of the affected utility's compliance with the requirements of this Article for the previous two calendar years, including the five cost-effectiveness tests with planned and~~vs~~ actual results for each DSM measure~~;~~
3. ~~Except for the initial implementation plan, which shall describe only the next calendar year, a~~A description of how the affected utility intends to comply with this Article for the next two calendar years, including an explanation of any modification to the rates of an existing DSM adjustment mechanism or tariff that the affected utility believes is necessary;
4. ~~Except for the initial implementation plan, which shall describe only the next calendar year, a~~A description of each DSM program to be newly implemented or continued in the next two calendar years and an estimate of the annual kWh~~, and~~ kW, therm or therm equivalent savings projected to be obtained through each DSM program;
5. The estimated total cost and cost per kWh or therm reduction of each ~~DSM measure and~~ DSM program described in subsection (~~B~~A)(~~3~~4);
6. A DSM tariff filing complying with R14-2-2406(A) or a request to modify and reset an adjustment mechanism complying with R14-2-2406(C), as applicable; and
7. For each ~~new~~ DSM program or DSM measure that the affected utility desires to implement or continue, a program proposal complying with R14-2-2407.

~~C~~B. An affected utility shall notify its customers of its ~~annual~~ implementation plan filing through a notice in its next regularly scheduled customer bills following the filing of the implementation plan.

~~D~~C. The Commission may hold a hearing to determine whether an affected utility's implementation plan satisfies the requirements of this Article.

~~E~~D. An affected utility's Commission-approved implementation plan, and the DSM programs authorized thereunder, shall continue in effect until the Commission takes action on a new implementation plan for the affected utility~~.~~, unless suspended by the Commission.

E. Only a gas utility may include a RET program in its implementation plan.

R14-2-2406. DSM Tariffs

A. An affected utility's DSM tariff filing shall include the following:

1. A detailed description of each method proposed by the affected utility to recover the reasonable and prudent costs associated with implementing the affected utility's intended DSM programs;
2. Financial information and supporting data sufficient to allow the Commission to determine the affected utility's fair value, including, at a minimum, the information required to be submitted in a utility annual report filed under R14-2-212(G)(4);
3. Data supporting the level of costs that the affected utility believes will be incurred in order to comply with this Article; and
4. Any other information that the affected utility or the Commission believes is relevant to the Commission's consideration of the tariff filing.

B. The Commission shall approve, modify, or deny a tariff filed pursuant to subsection (A) within ~~180~~210 days after the tariff has been filed. The Commission may suspend this deadline or adopt an alternative procedural schedule for good cause.

C. If an affected utility has an existing adjustment mechanism to recover the reasonable and prudent costs associated with implementing DSM programs, the affected utility may, in lieu of making a tariff filing under subsection (A), file a request to modify and reset its adjustment mechanism by submitting the information required under subsections (A)(1) and (3).

R14-2- 2407.Commission Review and Approval of DSM Programs and ~~DSM~~ Measures

A. An affected utility shall obtain Commission approval before implementing a new DSM program or ~~DSM~~ measure.

B. An affected utility may apply for Commission approval of a DSM program or ~~DSM~~ measure by submitting a program proposal either as part of its implementation plan submitted under R14-2-2405 or through a separate application.

C. A program proposal shall include the following:

1. A description of the DSM program or ~~DSM~~ measure that the affected utility desires to implement,
2. The affected utility's objectives and rationale for the DSM program or ~~DSM~~ measure,
3. A description of the market segment at which the DSM program or ~~DSM~~ measure is aimed,
4. An estimated level of customer participation in the DSM program or ~~DSM~~ measure,
5. An estimate of the baseline,
6. ~~The estimated societal benefits and savings from the DSM program or DSM measure,~~
7. ~~The estimated societal costs of the DSM program or DSM measure,~~
8. ~~6~~. The estimated environmental benefits to be derived from the DSM program or DSM measure,
9. ~~7~~. The estimated benefit-cost ratio of the DSM program or DSM measure, as calculated by the Utility Cost Test, using the Staff-approved methodology.
10. The estimated benefit-cost ratio of the DSM program or DSM measure, as calculated by the Ratepayer Impact Measure Test, using the Staff-approved methodology
11. The estimated benefit-cost ratio of the DSM program or DSM measure, as calculated by the Total Resource Cost Test, using the Staff-approved methodology.
12. The estimated benefit-cost ratio of the DSM program or DSM measure, as calculated by the Societal Test, using the Staff-approved methodology.
13. The estimated benefit-cost ratio of the DSM program or DSM measure, as calculated by the Participant Test, using the Staff-approved methodology.
14. The estimated benefits and savings from the DSM program or DSM measure to be used in the five cost-effectiveness tests,
15. The estimated costs of the DSM program or DSM measure to be used in the five cost-effectiveness tests,
16. ~~10~~14. The affected utility's marketing and delivery strategy,
17. ~~11~~15. The affected utility's estimated annual costs and budget for the DSM program or ~~DSM~~ measure,
18. ~~12.~~16. The implementation schedule for the DSM program or ~~DSM~~ measure,
19. ~~13.~~17. A description of the affected utility's plan for monitoring and evaluating the DSM program or ~~DSM~~ measure, and
20. ~~14~~18. Any other information that the affected utility or the Commission believes is relevant to the Commission's consideration of the tariff filing.

D. In determining whether to approve a program proposal, the Commission shall consider:

1. The extent to which the Commission believes the DSM program or DSM measure will meet the goals set forth in R14-2-2403(A), and
2. All of the considerations set forth in R14-2-2403(B).

E. Staff may request modifications of on-going DSM programs or measures to ensure consistency with this Article. The Commission shall allow affected utilities adequate time to notify customers of DSM program or measure modifications.

F. Staff shall perform a cost-benefit analysis on a representative sample of proposed DSM measures to verify that the affected utility used Staff's approved methodology.

G. A DSM program or measure must pass the Utility Cost Test with a score of 1.0 or higher in order to be considered by the Commission to be included in the Implementation Plan.

H. A DSM program or measure that passes both the Utility Cost Test and the Ratepayer Impact Measure Test with scores of 1.0 or higher is automatically approved for implementation once the tests are verified by Staff. The Commission retains the right to disallow any DSM program or DSM measure.

I. Staff shall maintain a list of DSM programs and measures that are cost-effective and approved to be implemented by any affected utility.

R14-2-2408. Parity and Equity

A. An affected utility shall develop and propose DSM programs for residential, non-residential, and ~~low~~limited-income customers.

B. An affected utility shall allocate DSM funds collected from residential customers and from non-residential customers proportionately to those customer classes to the extent practicable.

C. The affected utility costs of DSM programs for ~~low~~limited-income customers shall be borne by all customer classes, except where a customer or customer class is specifically exempted by Commission order.

D. DSM funds collected by an affected utility shall be used, to the extent practicable, to benefit that affected utility's customers.

E. All customer classes of an affected utility shall bear the costs of DSM programs by payment through a non-bypassable mechanism, unless a customer or customer class is specifically exempted by Commission order.

R14-2-2409. Reporting Requirements

A. By ~~March~~April 1 of each year, an affected utility shall submit to the Commission, in a Commission-established docket for that year, a DSM progress report providing information for each of the affected utility's Commission-approved DSM programs and including at least the following:

1. An analysis of the affected utility's progress toward meeting the bi-annual energy efficiency ~~standard~~goal, if applicable;
2. A list of the affected utility's current Commission-approved DSM programs and ~~DSM~~ measures, organized by customer segment;
3. A description of the findings from any research projects completed during the previous year; and
4. The following information for each Commission-approved DSM program or DSM measure:
   a. A brief description;
   b. Goals, objectives, and savings targets;
   c. Cost effectiveness calculations for each of the five tests comparing plan to actual.
   d. If the Utility Cost Test actual result is less than 1.0, an analysis of the variation from the planned cost effectiveness.
   ~~e~~c. The level of customer participation during the previous year;
   ~~d~~f. The costs incurred during the previous year, disaggregated by type of cost, such as administrative costs, rebates, and monitoring costs;
   ~~e~~g. A description and the results of evaluation and monitoring activities during the previous year;
   ~~f~~h. Savings realized in kW, kWh, therms, and ~~BTUs~~therm equivalents, as appropriate;
   ~~g~~i. The environmental benefits realized, including reduced emissions and water savings;
   ~~h~~j. Incremental benefits and net benefits, in dollars;
   ~~i. Performance incentive calculations for the previous year;~~
   ~~j~~k. Problems encountered during the previous year and proposed solutions;
   ~~k~~l. A description of any modifications proposed for the following year; and
   ~~l~~m. Whether the affected utility proposes to terminate ~~the~~a DSM program or DSM measure and the proposed date of termination.

~~**B.** By September 1 of each year, an affected utility shall file a status report including a tabular summary showing the following for each current Commission-approved DSM program and DSM measure of the affected utility:~~

~~1. Semi-annual expenditures compared to annual budget, and~~

~~2. Participation rates.~~

~~C~~**B.** An affected utility shall file each report required by this Section with Docket Control, where it will be available to the public, and shall make each such report available to the public upon request.

~~D~~C. An affected utility may request within its implementation plan that these reporting requirements supersede specific existing DSM reporting requirements.

R14-2-2410. Cost Recovery

A. An affected utility may recover the costs that it incurs in planning, designing, implementing, and evaluating a DSM program or DSM measure if the DSM program or DSM measure is all of the following:
   1. Approved by the Commission before it is implemented,
   2. Implemented in accordance with a Commission-approved program proposal or implementation plan, and
   3. Monitored and evaluated for cost-effectiveness pursuant to ~~R14-2-2415~~R14-2-2414.

B. An affected utility shall monitor and evaluate each DSM program and DSM measure, as provided in ~~R14-2-2415~~R14-2-2414, to determine whether the DSM program or DSM measure is cost-effective and otherwise meets expectations.

C. If an affected utility determines that a DSM program or DSM measure is not cost-effective or otherwise does not meet expectations, the affected utility shall terminate the program or measure and notify Staff and include in its annual DSM progress report filed under R14-2-2409 ~~a proposal to modify or terminate the DSM program or DSM measure~~details of why the program or measure was modified or terminated.

~~D. An affected utility shall recover its DSM costs concurrently, on an annual basis, with the spending for a DSM program or DSM measure, unless the Commission orders otherwise.~~

~~E~~D. An affected utility may recover costs from DSM funds for any of the following items, if the expenditures will enhance DSM:
   1. Incremental labor attributable to DSM development,
   2. A market study,
   3. A research and development project such as applied technology assessment,
   4. Consortium membership, or
   5. Another item that is difficult to allocate to an individual DSM program.

~~F~~E. The Commission may impose a limit on the amount of DSM funds that may be used for the items in subsection (~~E~~D).

~~G~~F. If goods and services used by an affected utility for DSM have value for other affected utility functions, programs, or services, the affected utility shall divide the costs for the goods and services and allocate funding proportionately.

~~H~~G. An affected utility shall allocate DSM costs in accordance with generally accepted accounting principles.

~~H~~H. The Commission shall review and address financial disincentives, recovery of fixed costs, and recovery of net lost income/revenue, due to Commission-approved DSM programs, if an affected utility requests such review in ~~its~~a rate case and provides documentation/records supporting its request in its rate application.

~~J~~I. ~~An affected utility, at its own initiative, may submit to the Commission twice-annual reports on the financial impacts of its Commission-approved DSM programs, including any unrecovered fixed costs and net lost income/revenue resulting from its Commission-approved DSM programs.~~To treat DSM similar to a typical generation resource, an investor-owned affected utility shall invest in Commission-approved DSM programs. After providing documentation that the DSM programs have been cost-effective, an affected utility will be allowed to defer and capitalize its DSM expenditures and amortize them into rates over time, earning the same rate of return on the deferred balance as for any other capital asset. This cost recovery methodology would begin after Commission approval in a rate case.

~~**R14-2-2411. Performance Incentives**~~

~~In the implementation plans required by R14-2-2405, an affected utility may propose for Commission review a performance incentive to assist in achieving the energy efficiency standard set forth in R14-2-2404. The Commission may also consider performance incentives in a general rate case.~~

~~R14-2-2412~~R14-2-2411. Cost-effectiveness

A. An affected utility shall ensure that the incremental benefits ~~to society~~ of each DSM program or measure ~~the affected utility's overall DSM portfolio~~ shall exceed the incremental costs ~~to society~~ of the DSM ~~portfolio~~program or measure.

B. The ~~Societal Test~~ Utility Cost Test and the Ratepayer Impact Measure Test shall be used to determine cost-effectiveness.

C. The analysis of a DSM program's or DSM measure's cost-effectiveness may include:
   1. Costs and benefits associated with reliability, improved system operations, environmental impacts, and customer service;
   2. Savings of both natural gas and electricity; and
   3. Any uncertainty about future streams of costs or benefits.

D. An affected utility shall make a good faith effort to quantify water consumption savings and reduction of air emissions ~~reductions~~from power plants, while other environmental costs or the value of environmental improvements shall be

estimated in physical terms when practical but may be expressed qualitatively. An affected utility, Staff, or any party may propose monetized benefits and costs if supported by appropriate documentation or analyses.

E. Market transformation programs shall be analyzed for cost-effectiveness by measuring market effects compared to program costs.

F. Educational programs shall be analyzed for cost-effectiveness based on estimated energy and peak demand savings resulting from increased awareness about energy use and opportunities for saving energy.

G. Research and development and pilot programs are not required to demonstrate cost-effectiveness.

H. An affected utility's ~~low~~limited-income customer program portfolio shall be cost-effective, but costs attributable to necessary health and safety measures shall not be used in the calculation.

~~R14-2-2413~~R14-2-2412. Baseline Estimation

A. To determine the baseline, an affected utility shall estimate the level of electric or gas demand and consumption and the associated costs that would have occurred in the absence of a DSM program or DSM measure.

B. For demand response programs, an affected utility shall use customer load profile information to verify baseline consumption patterns and the peak demand savings resulting from demand response actions.

C. For installations or applications that have multiple fuel choices, an affected utility shall determine the baseline using the same fuel source that would have actually been used for the installation or application in the absence of a DSM program.

~~R14-2-2414~~R14-2-2413. Fuel Neutrality

A. Ratepayer-funded DSM shall be developed and implemented in a fuel-neutral manner.

B. An affected utility shall use DSM funds collected from electric customers for electric DSM programs, unless otherwise ordered by the Commission.

C. An affected utility shall use DSM funds collected from gas customers for gas DSM programs, unless otherwise ordered by the Commission.

~~C~~D. An affected utility may use DSM funds collected from electric or gas customers for thermal envelope improvements.

~~R14-2-2415~~R14-2-2414. Monitoring, Evaluation, and Research

A. An affected utility shall monitor and evaluate each DSM program and DSM measure to:

1. Ensure compliance with the cost-effectiveness requirements of R14-2-2412;
2. Determine participation rates, energy savings, and demand reductions;
3. Assess the implementation process for the DSM program or DSM measure;
4. Obtain information on whether to continue, modify, or terminate a DSM program or DSM measure; and
5. Determine the persistence and reliability of the affected utility's DSM.

B. An affected utility may conduct evaluation and research, such as market studies, market research, and other technical research, for DSM program planning, product development, and DSM program improvement.

~~R14-2-2416~~R14-2-2415. Program Administration and Implementation

A. An affected utility may use an energy service company or other external resource to implement a DSM program or DSM measure.

B. The Commission may, at its discretion, establish independent program administrators who would be subject to the relevant requirements of this Article.

~~R14-2-2417~~R14-2-2416. Leveraging and Cooperation

A. An affected utility shall, to the extent practicable, participate in cost sharing, leveraging, or other lawful arrangements with customers, vendors, manufacturers, government agencies, other ~~electric~~ utilities, or other entities if doing so will increase the effectiveness or cost-effectiveness of a DSM program or DSM measure.

B. An affected utility ~~shall participate in a DSM program or DSM measure with a natural gas~~may cooperate with another utility when doing so is practicable and if doing so will increase the effectiveness or cost-effectiveness of a DSM program or DSM measure.

~~**R14-2-2418. Compliance by Electric Distribution Cooperatives**~~

~~**A.** An electric distribution cooperative that is an affected utility shall comply with the requirements of this Section instead of meeting the requirements of R14-2-2404(A) and (B) and R14-2-2405(A).~~

~~**B.** An electric distribution cooperative shall, on June 1 of each odd year, or annually at its election:~~

1. File with Docket Control, for Commission review and approval, an implementation plan for each DSM program to be implemented or maintained during the next one or two calendar years, as applicable; and
2. Submit to the Director of the Commission's Utilities Division an electronic copy of its implementation plan in a format suitable for posting on the Commission's web site.

C. An implementation plan submitted under subsection (B) shall set forth an energy efficiency goal for each year of at least 75% of the savings requirement specified in R14-2-2404 and shall include the information required under R14-2-2405(B).

R14-2-2419R14-2-2417. Waiver from the Provisions of this Article

A. The Commission may waive compliance with any provision of this Article for good cause.

B. An affected utility may petition the Commission to waive its compliance with any provision of this Article for good cause.

C. A petition filed pursuant to this Section shall have priority over other matters filed under this Article.

ARTICLE 25. GAS UTILITY ENERGY EFFICIENCY STANDARDS

R14-2-2501. Definitions

In this Article, unless otherwise specified:

1. "Adjustment mechanism" means a Commission approved provision in an affected utility's rate schedule allowing the affected utility to increase and decrease a certain rate or rates, in an established manner, when increases and decreases in specific costs are incurred by the affected utility.
2. "Affected utility" means a public service corporation that provides gas utility service to retail customers in Arizona.
3. "Baseline" means the level of gas demand, gas consumption, and associated expenses estimated to occur in the absence of a specific DSM program, determined as provided in R14-2-2513.
4. "CHP" means combined heat and power, which is using a primary energy source to simultaneously produce electrical energy and useful process heat.
5. "Commission" means the Arizona Corporation Commission.
6. "Cost-effective" means that total incremental benefits from a DSM measure or DSM program exceed total incremental costs over the life of the DSM measure, as determined under R14-2-2512.
7. "Customer" means the person or entity in whose name service is rendered to a single contiguous field, location, or facility, regardless of the number of meters at the field, location, or facility.
8. "Delivery system" means the infrastructure through which an affected utility transmits and then distributes gas energy to its customers.
9. "DSM" means demand-side management, the implementation and maintenance of one or more DSM programs.
10. "DSM measure" means any material, device, technology, educational program, practice, or facility alteration designed to result in increased energy efficiency and includes CHP used to displace space heating, water heating, or another load.
11. "DSM program" means one or more DSM measures provided as part of a single offering to customers.
12. "DSM tariff" means a Commission approved schedule of rates designed to recover an affected utility's reasonable and prudent costs of complying with this Article.
13. "Energy efficiency" means the production or delivery of an equivalent level and quality of end-use gas service using less energy, or the conservation of energy by end-use customers.
14. "Energy efficiency standard" means the reduction in retail energy sales, in percentage of therms or therm equivalents, required to be achieved through an affected utility's approved DSM and RET programs as prescribed in R14-2-2504.
15. "Energy savings" means the reduction in a customer's energy consumption, expressed in therms or therm equivalents.
16. "Energy service company" means a company that provides a broad range of services related to energy efficiency, including energy audits, the design and implementation of energy efficiency projects, and the installation and maintenance of energy efficiency measures.
17. "Environmental benefits" means avoidance of costs for compliance, or reduction in environmental impacts, for things such as, but not limited to:
    a. Water use and water contamination;
    b. Monitoring storage and disposal of solid waste, such as coal ash (bottom and fly);
    c. Health effects from burning fossil fuels; and
    d. Emissions from transportation and production of fuels.

18. "Fuel-neutral" means without promoting or otherwise expressing bias regarding a customer's choice of one fuel over another.
19. "Gas" means either natural gas or propane.
20. "Gas utility" means a public service corporation providing natural gas service or propane service to the public.
21. "Incremental benefits" means amounts saved through avoiding costs for gas purchases, delivery system, and other cost items necessary to provide gas utility service, along with other improvements in societal welfare, such as through avoided environmental impacts, including, but not limited to, water consumption savings, water contamination reduction, air emission reduction, reduction in coal ash, and reduction of nuclear waste.
22. "Incremental costs" means the additional expenses of DSM measures, relative to baseline.
23. "Independent program administrator" means an impartial third party employed to provide objective oversight of DSM and RET programs.
24. "kWh" means kilowatt-hour.
25. "Leveraging" means combining resources to more effectively achieve an energy efficiency goal, or to achieve greater energy efficiency savings, than would be achieved without combining resources.
26. "Low-income customer" means a customer with a below average level of household income, as defined in an affected utility's Commission-approved DSM program description.
27. "Market transformation" means strategic efforts to induce lasting structural or behavioral changes in the market that result in increased energy efficiency.
28. "Net benefits" means the incremental benefits resulting from DSM minus the incremental costs of DSM.
29. "Non-market benefits" means improvements in societal welfare that are not bought or sold.
30. "Program costs" means the expenses incurred by an affected utility as a result of developing, marketing, implementing, administering, and evaluating Commission-approved DSM programs.
31. "RET" means a renewable energy resource technology application utilizing an energy resource that is replaced rapidly by a natural, ongoing process and that displaces conventional energy resources otherwise used to provide energy to an affected utility's Arizona customers.
32. "RET program" means one or more RETs provided as part of a single offering to customers.
33. "Revenue decoupling" means a mechanism that reduces or eliminates the connection between sales volume and the recovery of an affected utility's Commission-approved cost of service.
34. "Self-direction" means an option made available to qualifying customers of sufficient size, in which the amount of money paid by each qualifying customer toward DSM costs is tracked for the customer and made available for use by the customer for approved DSM investments upon application by the customer.
35. "Societal Test" means a cost-effectiveness test of the net benefits of DSM programs that starts with the Total Resource Cost Test, but includes non-market benefits and costs to society.
36. "Staff" means individuals working for the Commission's Utilities Division, whether as employees or through contract.
37. "Therm" means a unit of heat energy equal to 100,000 British Thermal Units.
38. "Thermal envelope" means the collection of building surfaces, such as walls, windows, doors, floors, ceilings, and roofs, that separate interior conditioned (heated or cooled) spaces from the exterior environment.
39. "Therm equivalent" means a unit of energy, such as kWh, converted and stated in terms of therms.
40. "Total Resource Cost Test" means a cost-effectiveness test that measures the net benefits of a DSM program as a resource option, including incremental measure costs, incremental affected utility costs, and carrying costs as a component of avoided capacity cost, but excluding incentives paid by affected utilities and non-market benefits to society.

R14-2-2502. Applicability

This Article applies to each affected utility classified as Class A according to R14-2-103(A)(3)(q).

R14-2-2503. Goals and Objectives

A. An affected utility shall design each DSM program to be cost-effective.

B. An affected utility shall consider the following when planning and implementing a DSM or RET program:

1. Whether the DSM or RET program will advance market transformation and achieve sustainable savings, reducing the need for future market interventions;
2. Whether the affected utility can ensure a level of funding adequate to sustain the DSM or RET program and allow the program to achieve its targeted goals; and
3. If a DSM program, whether the DSM program will achieve cost-effective energy savings.

C. An affected utility shall:

1. Offer DSM programs that will provide an opportunity for all affected utility customer segments to participate, and

2. Allocate a portion of DSM resources specifically to low-income customers.

R14-2-2504. Energy Efficiency Standards

A. Except as provided in R14-2-2518 and R14-2-2519, in order to ensure reliable gas service at reasonable ratepayer rates and costs, by December 31, 2020, an affected utility shall, through DSM and RET programs, achieve cumulative annual energy savings, expressed as therms or therm equivalents, equal to at least 6% of the affected utility's retail gas energy sales for calendar year 2019.

B. An affected utility shall, by the end of each calendar year, meet at least the cumulative annual energy efficiency standard listed in Table 1 for that calendar year. An illustrative example of how the required energy savings would be calculated is shown in Table 2. An illustrative example of how the standard can be met in 2020 is shown in Table 4.

Table 1. Energy Efficiency Standard

CALENDAR YEAR	ENERGY EFFICIENCY STANDARD (Cumulative Annual Energy Savings by the End of Each Calendar Year as a Percentage of the Retail Energy Sales in the Prior Calendar Year)
2011	0.50%
2012	1.20%
2013	1.80%
2014	2.40%
2015	3.00%
2016	3.60%
2017	4.20%
2018	4.80%
2019	5.40%
2020	6.00%

Table 2. Illustrative Example of Calculating Required Energy Savings

CALENDAR YEAR	A RETAIL SALES (therms)	B ENERGY EFFICIENCY STANDARD	C REQUIRED CUMULATIVE ENERGY SAVINGS (therms or therm equivalents) (B of current year × A of prior year)
2010	100,000,000		0
2011	97,500,000	0.50%	500,000
2012	94,870,000	1.20%	1,170,000
2013	92,411,540	1.80%	1,707,660
2014	90,018,939	2.40%	2,217,877
2015	87,691,512	3.00%	2,700,568
2016	85,427,344	3.60%	3,156,894
2017	83,224,605	4.20%	3,587,948
2018	81,081,521	4.80%	3,994,781
2019	78,996,374	5.40%	4,378,402

2020	76,967,498	6.00%	4,739,782

C. An affected utility may count energy savings resulting from DSM and RET programs to meet the energy efficiency standard. At least 75% of the energy efficiency standard for each year listed in Table 1 shall be achieved through DSM energy efficiency programs.

D. An affected utility's energy savings resulting from DSM energy efficiency programs implemented before the effective date of this Article, but after 2004, may be credited toward meeting the energy efficiency standard set forth in subsection (B). The total energy savings credit for these pre-rules DSM programs shall not exceed 1% of the affected utility's retail energy sales in calendar year 2005. A portion of the total energy savings credit for these pre-rules programs may be applied each year, from 2016 through 2020, as listed in Table 3, Column A.

Table 3. Credit for Pre-rules Energy Savings

CALENDAR YEAR	A CREDIT FOR THE PRE-RULES ENERGY SAVINGS APPLIED IN EACH YEAR (Percentage of the Total Eligible Pre-rules Cumulative Annual Energy Savings That Shall Be Applied in the Year)	B CUMULATIVE APPLICATION OF THE CREDIT FOR THE PRE-RULES ENERGY SAVINGS IN 2016-2020 (Percentage of the Total Eligible Pre-rules Cumulative Annual Energy Savings That Are Credited by the End of Each Year)
2016	7.5%	7.5%
2017	15.0%	22.5%
2018	20.0%	42.5%
2019	25.0%	67.5%
2020	32.5%	100.0%

E. An affected utility may count toward meeting the energy efficiency standard up to one-third of the energy savings resulting from energy efficiency building codes and up to one-third of the energy savings resulting from energy efficiency appliance standards, if the energy savings are quantified and reported through a measurement and evaluation study undertaken by the affected utility, and the affected utility demonstrates and documents its efforts in support of the adoption or implementation of the energy efficiency building codes and appliance standards.

F. An affected utility may count a customer's energy savings resulting from self-direction toward meeting the energy efficiency standard.

G. An affected utility may count toward meeting the energy efficiency standard all energy savings resulting from the affected utility's sponsorship of RET projects that displace gas. An affected utility may also count toward meeting the energy efficiency standard all energy savings resulting from other RET projects that are not sponsored by the affected utility, if the affected utility can demonstrate that its efforts facilitated the placement and completion of the RET project.

H. An affected utility's energy savings resulting from efficiency improvements to its delivery system may not be counted toward meeting the energy efficiency standard.

I. An affected utility's energy savings used to meet the energy efficiency standard will be assumed to continue through the year 2020 or, if expiring before the year 2020, to be replaced with a DSM measure or RET having at least the same level of efficiency.

Table 4. Illustrative Example of How the Energy Standard Could be Met in 2020

	2020 Energy Efficiency Standard	2019 Retail Sales (therms)	Required Cumulative Annual Energy Savings (therms or therm equivalents)
Total	6.00%	78,996,374	4,739,782
Breakdown of Savings and Credits Used To Meet 2020 Standard:			
			Cumulative Annual Energy Savings Or Credit (therms)

Pre-rules Savings Credit R14-2-2504(D)			359,545*
Building Codes and Appliance Standards R14-2-2504(E)			425,000
Self-direction R14-2-2504(F)			27,000
RET R14-2-2504(G)			25,000
CHP R14-2-2501(10) and R14-2-2504(C)			135,000
Energy Efficiency R14-2-2504(C)	At least 75%		3,768,237
Total			4,739,782

* The total pre-rules savings credit shall be capped at 1% of 2005 retail energy sales, and the total credit is allocated over five years from 2016 to 2020. The credit shown above represents an estimate of the portion of the total credit that can be taken in 2020, or 32.5% of the total credit allowed.

R14-2-2505. Implementation Plans

A. Except as provided in R14-2-2518 and R14-2-2519, on June 1 of each odd year, or annually at the election of each affected utility, each affected utility shall file with Docket Control, for Commission review and approval, an implementation plan describing how the affected utility intends to meet the energy efficiency standard for the next one or two calendar years, as applicable, except that the initial implementation plan shall be filed within 30 days of the effective date of this Article.

B. The implementation plan shall include the following information:

1. Except for the initial implementation plan, a description of the affected utility's compliance with the requirements of this Article for the previous calendar year;
2. Except for the initial implementation plan, which shall describe only the next calendar year, a description of how the affected utility intends to comply with this Article for the next two calendar years, including an explanation of any modification to the rates of an existing DSM adjustment mechanism or tariff that the affected utility believes is necessary;
3. Except for the initial implementation plan, which shall describe only the next calendar year, a description of each DSM and RET program to be newly implemented or continued in the next two calendar years and an estimate of the annual therm or therm equivalent savings projected to be obtained through each DSM and RET program;
4. The estimated total cost and cost per therm reduction of each DSM measure and program and each RET and RET program described in subsection (B)(3);
5. A DSM tariff filing complying with R14-2-2506(A) or a request to modify and reset an adjustment mechanism complying with R14-2-2506(C), as applicable; and
6. For each new DSM measure and program and each RET and RET program that the affected utility desires to implement, a program proposal complying with R14-2-2507.

C. An affected utility shall notify its customers of its implementation plan filing through a notice in its next regularly scheduled customer bills following the filing of the implementation plan.

D. The Commission may hold a hearing to determine whether an affected utility's implementation plan satisfies the requirements of this Article.

E. An affected utility's Commission-approved implementation plan, and the DSM and RET programs authorized thereunder, shall continue in effect until the Commission takes action on a new implementation plan for the affected utility.

R14-2-2506. DSM Tariffs

A. An affected utility's DSM tariff filing shall include the following:

1. A detailed description of each method proposed by the affected utility to recover the reasonable and prudent costs associated with implementing the affected utility's intended DSM and RET programs;
2. Financial information and supporting data sufficient to allow the Commission to determine the affected utility's fair value, including, at a minimum, the information required to be submitted in a utility annual report filed under R14-2-312(G)(4);
3. Data supporting the level of costs that the affected utility believes will be incurred in order to comply with this Article; and
4. Any other information that the Commission believes is relevant to the Commission's consideration of the tariff filing.

B. The Commission shall approve, modify, or deny a tariff filed pursuant to subsection (A) within 180 days after the tariff has been filed. The Commission may suspend this deadline or adopt an alternative procedural schedule for good cause.

C. If an affected utility has an existing adjustment mechanism to recover the reasonable and prudent costs associated with implementing DSM and RET programs, the affected utility may, in lieu of making a tariff filing under subsection (A), file a request to modify and reset its adjustment mechanism by submitting the information required under subsections (A)(1) and (3).

R14-2-2507. Commission Review and Approval of DSM and RET Programs

A. An affected utility shall obtain Commission approval before implementing a new DSM program or measure or a new RET program or RET.

B. An affected utility may apply for Commission approval of a DSM program or measure or an RET program or RET by submitting a program proposal either as part of its implementation plan submitted under R14-2-2505 or through a separate application.

C. A program proposal shall include the following:
1. A description of the DSM program or measure or RET program or RET that the affected utility desires to implement;
2. The affected utility's objectives and rationale for the DSM program or measure or RET program or RET;
3. A description of the market segment at which the DSM program or measure or RET program or RET is aimed;
4. An estimated level of customer participation in the DSM program or measure or RET program or RET;
5. An estimate of the baseline;
6. For a DSM program or measure:
   a. The estimated societal benefits and savings from the DSM program or measure,
   b. The estimated societal costs of the DSM program or measure, and
   c. The estimated benefit-cost ratio of the DSM program or measure;
7. The estimated environmental benefits to be derived from the DSM program or measure or RET program or RET;
8. The affected utility's marketing and delivery strategy;
9. The affected utility's estimated annual costs and budget for the DSM program or measure or RET program or RET;
10. The implementation schedule for the DSM program or measure or RET program or RET;
11. A description of the affected utility's plan for monitoring and evaluating the DSM program or measure or RET program or RET; and
12. Any other information that the Commission believes is relevant to the Commission's consideration of the filing.

D. In determining whether to approve a program proposal, the Commission shall consider:
1. The extent to which the Commission believes the DSM program or measure will meet the goal set forth in R14-2-2503(A), and
2. All of the considerations set forth in R14-2-2503(B).

E. Staff may request modifications of on-going DSM and RET programs to ensure consistency with this Article. The Commission shall allow affected utilities adequate time to notify customers of DSM and RET program modifications.

R14-2-2508. Parity and Equity

A. An affected utility shall develop and propose DSM programs for residential, non-residential, and low-income customers.

B. An affected utility shall allocate DSM funds collected from residential customers and from non-residential customers proportionately to those customer classes to the extent practicable.

C. The affected utility costs of DSM and RET programs for low-income customers shall be borne by all customer classes, except where a customer or customer class is specifically exempted by Commission order.

D. DSM funds collected by an affected utility shall be used, to the extent practicable, to benefit that affected utility's customers.

E. All customer classes of an affected utility shall bear the costs of DSM and RET programs by payment through a non-bypassable mechanism, unless a customer or customer class is specifically exempted by Commission order.

R14-2-2509. Reporting Requirements

A. By April 1 of each year, an affected utility shall submit to the Commission, in a Commission-established docket for that year, a DSM progress report providing information for each of the affected utility's Commission-approved DSM and RET programs including at least the following:
   1. An analysis of the affected utility's progress toward meeting the annual energy efficiency standard;
   2. A list of the affected utility's current Commission-approved DSM and RET programs, organized by customer segment;
   3. A description of the findings from any research projects completed during the previous year; and
   4. The following information for each Commission-approved DSM program and measure and RET program and RET:
      a. A brief description;
      b. Goals, objectives, and savings targets;
      c. The level of customer participation during the previous year;
      d. The costs incurred during the previous year, disaggregated by type of cost, such as administrative costs, rebates, and monitoring costs;
      e. A description and the results of evaluation and monitoring activities during the previous year;
      f. Savings realized in kW, kWh, therms, and therm equivalents, as appropriate;
      g. The environmental benefits realized;
      h. Incremental benefits and net benefits, in dollars;
      i. Performance incentive calculations for the previous year;
      j. Problems encountered during the previous year and proposed solutions;
      k. A description of any modifications proposed for the following year; and
      l. Whether the affected utility proposes to terminate the DSM program or measure or RET program or RET and the proposed date of termination.

B. By October 1 of each year, an affected utility shall file a status report including a tabular summary showing the following for each current Commission-approved DSM program and measure and RET program and RET of the affected utility:
   1. Semi-annual expenditures compared to annual budget, and
   2. Participation rates.

C. An affected utility shall file each report required by this Section with Docket Control, where it will be available to the public, and shall make each such report available to the public upon request.

D. An affected utility may request within its implementation plan that these reporting requirements supersede specific existing DSM reporting requirements.

R14-2-2510. Cost Recovery

A. An affected utility may recover the costs that it incurs in planning, designing, implementing, and evaluating a DSM program or measure or RET program or RET if the DSM program or measure or RET program or RET is all of the following:
   1. Approved by the Commission before it is implemented;
   2. Implemented in accordance with a Commission-approved program proposal or implementation plan; and
   3. Monitored and evaluated, pursuant to R14-2-2515.

B. An affected utility shall monitor and evaluate each DSM program or measure and each RET program or RET, as provided in R14-2-2515.

C. If an affected utility determines that a DSM program or measure is not cost-effective or that a DSM program or measure or RET program or RET does not meet expectations, the affected utility shall include in its annual DSM progress report filed under R14-2-2509 a proposal to modify or terminate the DSM program or measure or RET program or RET.

D. An affected utility shall recover its DSM and RET costs concurrently, on an annual basis, with the spending for DSM and RET programs, unless the Commission orders otherwise.

E. An affected utility may recover costs from DSM funds for any of the following items, if the expenditures will enhance DSM or RET programs:
   1. Incremental labor attributable to DSM and RET development,
   2. A market study,
   3. A research and development project such as applied technology assessment,
   4. Consortium membership, or
   5. Other items that are difficult to allocate to an individual DSM or RET program.

F. The Commission may impose a limit on the amount of DSM funds that may be used for the items in subsection (E).

G. If goods and services used by an affected utility for DSM or RET have value for other affected utility functions, programs, or services, the affected utility shall divide the costs for the goods and services and allocate funding proportionately.

H. An affected utility shall allocate DSM and RET costs in accordance with generally accepted accounting principles.

I. An affected utility, at its own initiative, may submit to the Commission twice-annual reports on the financial impacts of its Commission-approved DSM and RET programs, including any unrecovered fixed costs and net lost income/revenue resulting from its Commission-approved DSM and RET programs.

R14-2-2511. Revenue Decoupling

The Commission shall review and address financial or other disincentives, recovery of fixed costs, and recovery of net lost income/revenue, including, but not limited to, implementation of a revenue decoupling mechanism, due to Commission-approved DSM and RET programs, if an affected utility requests such review in its rate case and provides adequate documentation/records supporting its request in its rate application.

R14-2-2512. Cost-effectiveness

A. An affected utility shall ensure that the incremental benefits to society of the affected utility's overall group of DSM programs exceed the incremental costs to society of the overall group of DSM programs.

B. The Societal Test shall be used to determine cost-effectiveness.

C. The analysis of a DSM program's or DSM measure's cost-effectiveness may include:

1. Costs and benefits associated with reliability, improved system operations, environmental impacts, and customer service;
2. Savings of both gas and electricity; and
3. Any uncertainty about future streams of costs or benefits.

D. An affected utility shall make a good faith effort to quantify water consumption savings and air emission reductions resulting from implementation of DSM programs, while other environmental costs or the value of environmental improvements shall be estimated in physical terms when practical but may be expressed qualitatively. An affected utility, Staff, or any party may propose monetized benefits and costs if supported by appropriate documentation or analyses.

E. Market transformation programs shall be analyzed for cost-effectiveness by measuring market effects compared to program costs.

F. Educational programs shall be analyzed for cost-effectiveness based on estimated energy and peak demand savings resulting from increased awareness about energy use and opportunities for saving energy.

G. Research and development and pilot programs are not required to demonstrate cost-effectiveness.

H. An affected utility's low-income customer program portfolio shall be cost-effective, but costs attributable to necessary health and safety measures shall not be used in the calculation.

R14-2-2513. Baseline Estimation

A. To determine the baseline, an affected utility shall estimate the level of gas demand and consumption and the associated costs that would have occurred in the absence of a DSM program.

B. For installations or applications that have multiple fuel choices, an affected utility shall determine the baseline using the same fuel source that would have actually been used for the installation or application in the absence of a DSM program.

R14-2-2514. Fuel Neutrality

A. Ratepayer-funded DSM shall be developed and implemented in a fuel-neutral manner.

B. An affected utility shall use DSM funds collected from gas customers for gas DSM programs, unless otherwise ordered by the Commission.

C. An affected utility may use DSM funds collected from gas customers for thermal envelope improvements.

R14-2-2515. Monitoring, Evaluation, and Research

A. An affected utility shall monitor and evaluate each DSM program and measure and each RET program and RET to:

1. Ensure compliance with the cost-effectiveness requirements for DSM programs in R14-2-2512;
2. Determine participation rates, energy savings, and demand reductions;
3. Assess the implementation process for the DSM program or measure or RET program or RET;
4. Obtain information on whether to continue, modify, or terminate a DSM program or measure or RET program or RET; and

5. Determine the persistence and reliability of the affected utility's DSM programs and measures and RET programs and RETs.

B. An affected utility may conduct evaluation and research, such as market studies, market research, and other technical research, for DSM and RET program planning, product development, and DSM and RET program improvement.

R14-2-2516. Program Administration and Implementation

A. An affected utility may use an energy service company or other external resource to implement a DSM program or measure or RET program or RET.

B. The Commission may, at its discretion, establish independent program administrators who would be subject to the relevant requirements of this Article.

R14-2-2517. Leveraging and Cooperation

A. An affected utility shall, to the extent practicable, participate in cost sharing, leveraging, or other lawful arrangements with customers, vendors, manufacturers, government agencies, other gas utilities, or other entities if doing so will increase the effectiveness of a DSM program or measure or RET program or RET.

B. An affected utility shall participate in a DSM program or measure or RET program or RET with an electric utility when doing so is practicable and if doing so will increase the effectiveness of the DSM program or measure or RET program or RET.

R14-2-2518. Compliance by Gas Distribution Cooperatives

A. A gas distribution cooperative that is an affected utility shall comply with the requirements of this Section instead of meeting the requirements of R14-2-2504(A) and (B) and R14-2-2505(A).

B. A gas distribution cooperative shall, on June 1 of each odd year, or annually at its election:

1. File with Docket Control, for Commission review and approval, an implementation plan providing information for each DSM and RET program to be implemented or maintained during the next one or two calendar years, as applicable; and
2. Submit to the Director of the Commission's Utilities Division an electronic copy of its implementation plan in a format suitable for posting on the Commission's web site.

C. A gas distribution cooperative's initial implementation plan shall be filed with Docket Control within 30 days of the effective date of this Article.

D. An implementation plan submitted under subsection (B) or (C) shall set forth an energy efficiency goal for each year of at least 75% of the savings requirement specified in R14-2-2504 and shall include the information required under R14-2-2505(B).

R14-2-2519. Compliance by Propane Companies

A. A propane company that is an affected utility shall comply with the requirements of this Section instead of meeting the requirements of R14-2-2504(A) and (B) and R14-2-2505(A).

B. A propane company shall, on June 1 of each odd year, or annually at its election:

1. File with Docket Control, for Commission review and approval, an implementation plan providing information for each DSM and RET program to be implemented or maintained during the next one or two calendar years, as applicable; and
2. Submit to the Director of the Commission's Utilities Division an electronic copy of its implementation plan in a format suitable for posting on the Commission's web site.

C. A propane company's initial implementation plan shall be filed with Docket Control within 30 days of the effective date of this Article.

D. An implementation plan submitted under subsection (B) or (C) shall set forth an energy efficiency goal for each year of at least 50% of the savings requirement specified in R14-2-2504 and shall include the information required under R14-2-2505(B).

R14-2-2520. Waiver from the Provisions of this Article

A. The Commission may waive compliance with any provision of this Article for good cause.

B. An affected utility may petition the Commission to waive its compliance with any provision of this Article for good cause.