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7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8 JEFF HATCH-MILLER, CHARIMAN  
MARC SPITZER  
9 WILLIAM A. MUNDELL  
MIKE GLEASON  
10 KRISTIN K. MAYES  
11

12 IN THE MATTER OF THE APPLICATION OF  
SOUTHWEST GAS CORPORATION FOR THE  
13 ESTABLISHMENT OF JUST AND  
REASONABLE RATES AND CHARGES  
14 DESIGNED TO REALIZE A REASONABLE  
RATE OF RETURN ON THE FAIR VALUE OF  
15 THE PROPERTIES OF SOUTHWEST GAS  
CORPORATION DEVOTED TO ITS  
16 OPERATIONS THROUGHOUT THE STATE  
OF ARIZONA  
17

Docket No. G-01551A-04-0876

**NOTICE OF FILING TESTIMONY  
SUMMARY**

18 Southwest Energy Efficiency Project and Natural Resources Defense Council, through  
19 their undersigned counsel, hereby provide notice they have this day filed the testimony summary  
20 of Jeff Schlegel in connection with the above-captioned matter.  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

JEFF HATCH-MILLER, CHAIRMAN  
MARC SPITZER  
WILLIAM A. MUNDELL  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF  
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ESTABLISHMENT OF JUST AND  
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RATE OF RETURN ON THE FAIR VALUE OF  
THE PROPERTIES OF SOUTHWEST GAS  
CORPORATION DEVOTED TO ITS  
OPERATIONS THROUGHOUT THE STATE  
OF ARIZONA.

Docket No. G-01551A-04-0876

Summary of the Testimony of

**Jeff Schlegel**

on behalf of

**Southwest Energy Efficiency Project and  
Natural Resources Defense Council  
(SWEEP/NRDC)**

October 5, 2005

## **Summary of the Testimony of Jeff Schlegel On Behalf of SWEEP/NRDC**

The following is a summary of the direct and surrebuttal testimony of Jeff Schlegel, filed on behalf of the Southwest Energy Efficiency Project and the Natural Resources Defense Council (SWEEP/NRDC).

### **Demand Side Management (DSM)**

SWEEP/NRDC support the two existing and seven additional natural gas Demand Side Management (DSM) programs proposed by Southwest Gas. SWEEP/NRDC propose that DSM program funding increase from \$4.385 million proposed by Southwest Gas to \$5.135 million, to ensure that at least \$1 million is available to support the residential new construction program (ENERGY STAR Home Certification) throughout the Southwest Gas service territory. SWEEP/NRDC urge Commission approval of the Preliminary DSM Plan (Exhibit JS-2 in Mr. Schlegel's surrebuttal testimony).

SWEEP/NRDC propose a performance incentive that Southwest Gas would earn if it implements effective DSM programs that meet program goals, resulting in a maximum performance incentive of \$513,500 in 2006 (10% of 2006 DSM program funding). Total DSM funding would be \$5.6485 million including the maximum performance incentive amount.

SWEEP/NRDC recommend that Southwest Gas file a Final DSM Plan with program descriptions, budgets, savings, and cost-effectiveness analysis for Commission review and approval within 120 days of the Commission's order in the Southwest Gas rate case.

SWEEP/NRDC recommend that Southwest Gas implement and maintain a collaborative DSM working group.

SWEEP/NRDC support up to \$50,000 in DSM funding for the bill assistance element of the LIEC program since it is a relatively low level of DSM funding focused on emergency situations of low income customers. Any unspent funds should be allocated to weatherization.

SWEEP/NRDC recommend that the DSM programs and funding be approved by the Commission, regardless of the outcome of the CMT and customer rate design issues, because of the significant cost-effective benefits to customers including the assistance to customers in mitigating future increases in natural gas prices.

### **Financial Disincentive to Natural Gas Utility Support of Energy Efficiency**

SWEEP/NRDC continue to state that traditional utility regulation, which links the utility's financial health to the volume of natural gas sold, results in a financial disincentive to invest in energy efficiency and other demand-side resources that reduce natural gas sales. SWEEP/NRDC recommend that the financial disincentive to natural gas utility support of energy efficiency be addressed in Arizona in a timely manner.

SWEEP/NRDC continue to believe that the gas utility financial disincentive issue and a full analysis of the pros and cons of mechanisms for removing the financial disincentive, including but not limited to the CMT, should be reviewed and evaluated prior to Commission adoption of a specific mechanism. This issue would benefit from a broader and more in-depth discussion, in this proceeding or in another forum. Mr. Schlegel raised several questions in his direct testimony, including who should bear the risks of variations in weather or in overall demographic and energy usage trends. If not addressed fully in this proceeding, SWEEP/NRDC recommend that the issue of the financial disincentive and potential mechanisms to address it be discussed in the DSM policy process, either through additional comments on the proposed DSM policies or through additional DSM policy workshops, with a workshop report filed with the Commission no later than 180 days of the order.

### **Rate Design**

SWEEP/NRDC oppose higher fixed charges for natural gas customers because higher fixed charges would reduce the price signal customers would receive when they reduce energy use and become more energy efficient, thereby reducing the ability of customers to manage their own energy bills.

SWEEP/NRDC support the concept of a flat or one-tier rate structure proposed by RUCO, and do not support the continuation of a two-tiered declining rate structure.

### **Conclusion**

SWEEP/NRDC urge the Commission to implement programs, policies, and mechanisms that *encourage* cost-effective energy efficiency, not discourage it, for customers and for natural gas utilities. Increasing natural gas energy efficiency will provide significant and cost-effective benefits for Southwest Gas customers, the natural gas and electric utility systems, the economy, and the environment.