

66525



Arizona Utility  
Investors Association

2100 N. Central, Ste. 210  
P. O. Box 34805  
Phoenix, AZ 85067

Tel: (602) 257-9200  
Fax: (602) 254-4300

Email: info@auia.org  
Web Site: www.auia.org



October 23, 2003

Arizona Corporation Commission  
**DOCKETED**

Chairman Marc Spitzer  
Commissioner Bill Mundell  
Commissioner Mike Gleason  
Commissioner Jeff Hatch-Miller  
Commissioner Kris Mayes

OCT 24 2003

DOCKETED BY *CM*

2003 OCT 24 P 2:21  
RECEIVED

Re: APS' Application for a Partial Variance to A.C.C. R14-2-1618  
Docket No. E-01345A-03-0660

Commissioners:

I was taken by surprise Tuesday by the above agenda item at the Commission's Open Meeting. AUIA was unaware of the APS application and of Southwest Gas Corporation's exposure to it. As you can appreciate, AUIA is somewhat conflicted in this matter because two of our member companies are on opposing sides. However, AUIA's long involvement in the relevant issues compels me to offer some perspective on this proposal.

The immediate issue is fairly straightforward:

If the conversion program authorized by the variance is too broad in scope or if the variance itself is open-ended as proposed, then SWG may find its revenue stream threatened without benefit of due process and that is not acceptable. I'm sure you are aware that SWG earns nothing on sales of the gas commodity, but the rate structure approved by this Commission penalizes the company for reduced volumes. The type of gas business described by Mr. Fox Tuesday morning ("captive audience") is just the kind of high load factor business that is important to SWG's revenue stream. SWG currently is in the bottom tier for return on equity among publicly traded gas distribution companies in the U.S.

On the other hand, if the resulting program can be limited, as Mr. Fox seemed to indicate on Tuesday, and if the Commission intends to keep it that way through a limited variance, then there may be a way to forge a compromise that would reduce the business exposure for SWG and meet the expressed needs of APS. If a customer like the one described by Mr. Fox simply wants to do a renewable project and solar hot water is the only option, it seems harsh to deny him the opportunity, even if it requires public funds to make it happen.

Having said that, AUIA would like to alert the Commission to some concerns about this ad hoc approach to rulemaking:

1. Due Process. The Environmental Portfolio Standard (EPS) arose directly out of the electric competition rulemaking. SWG never had an opportunity to respond to any proposals involving gas displacement because natural gas was not a subject of that rulemaking. Although the proposed variance applies only to APS, it could spread to other gas and electric providers based on a precedent here.

2. Misaligned Objectives. As Chairman Spitzer noted, the avowed purpose of the EPS was to kick-start the availability and cost competitiveness of renewable energy sources. There were no assumptions about what conventional resources might be displaced, if any. Delivered natural gas supplies may or may not be in jeopardy (I happen to think they are), but the EPS was not promoted to relieve that problem. If it were, it would be an anemic mechanism. A load loss of forty thousand therms may result in \$40,000 in lost revenues to SWG, but it would not cause a hiccup in the throughput of any gas-fired generating plant in Arizona.

3. Competitive Issues. The EPS also was never portrayed as a tool that would allow one company or industry to use ratepayer funds to disadvantage a competitor. Yet it seems obvious that an overly broad variance aimed exclusively at natural gas applications would have exactly that effect.

4. Energy Efficiency. Finally, if we are going to take the Commission's rules to a new threshold, where specific fuel sources or applications are targeted for displacement through public subsidies, then it should be incumbent on the Commission to determine that the least efficient applications are targeted rather than ones that are more efficient. I suspect that gas water heating would land pretty high on the spectrum of energy efficiency.

In summary, AUIA believes it is one thing to require electric companies to invest in renewable resources, but it is entirely another to target specific fuel sources or applications for displacement. If there are certain circumstances that require special treatment, AUIA urges the Commission and the parties to narrow the scope of any variance to fit those circumstances.

Sincerely,



Walter W. Meek  
President

cc: Ed Fox  
Ed Zub  
Ernest Johnson