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BEFORE THE ARIZONA CORPORATION COMMISSION

10 MIKE GLEASON, Chairman
11 WILLIAM A. MUNDELL
12 JEFF-HATCH MILLER
13 KRISTIN K. MAYES
14 GARY PIERCE

15 IN THE MATTER OF THE) Docket No. G-01551A-07-0504
16 APPLICATION OF SOUTHWEST GAS)
17 CORPORATION FOR THE) **NOTICE OF FILING SURREBUTTAL**
18 ESTABLISHMENT OF JUST AND) **TESTIMONY**
19 REASONABLE RATES AND CHARGES)
20 DESIGNED TO REALIZE A)
21 REASONABLE RATE OF RETURN ON)
22 THE FAIR VALUE OF ITS)
23 PROPERTIES THROUGHOUT)
24 ARIZONA.)
25)

26 Southwest Energy Efficiency Project ("SWEEP"), through its undersigned
27 counsel, hereby provides notice that it has this day filed the written surrebuttal testimony
28 of Jeffrey A. Schlegel in connection with the above-captioned matter.

Arizona Corporation Commission
DOCKETED

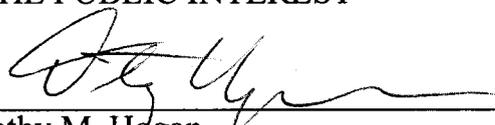
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1 DATED this 27th day of May, 2008.

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ORIGINAL and 13 COPIES of the
Foregoing filed this 27th day of
May, 2008 with:

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

COPIES of the foregoing mailed
this 27th day of May, 2008
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST GAS CORPORATION FOR THE
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE OF
ITS PROPERTIES THROUGHOUT ARIZONA.

Docket No. G-01551A-07-0504

Surrebuttal Testimony of

Jeff Schlegel

on behalf of

Southwest Energy Efficiency Project (SWEEP)

May 27, 2008

**Surrebuttal Testimony of Jeff Schlegel, SWEEP
Docket No. G-01551A-07-0504**

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Introduction

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- Q. Please state your name and business address.
- A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson, Arizona 85704-3224.
- Q. Have you presented other testimony in this proceeding?
- A. Yes. I prepared direct testimony on behalf of the Southwest Energy Efficiency Project (SWEEP), filed March 28, 2008.
- Q. What is the purpose of your surrebuttal testimony?
- A. In my surrebuttal testimony I will respond to the rebuttal testimony of Southwest Gas, particularly the rebuttal testimony of witnesses Congdon and Miller.
- Q. What are SWEEP's primary positions set forth in your direct testimony?
- A. SWEEP's primary positions are:
1. Cost-effective DSM programs should continue to ramp up and expand, substantially and expeditiously, to serve Southwest Gas customers, so that more customers can reduce their natural gas costs and mitigate the effects of any rate increase through increased energy efficiency.
 2. The financial interest of Southwest Gas should be aligned more with the public interest and ratepayer interest by removing financial disincentives to utility support of energy efficiency (and the resulting reductions in customer costs).

Cost-Effective DSM Programs and Funding

- Q. In its rebuttal testimony, Southwest Gas proposed to "remove the determination of the level of DSM program spending from Southwest's general rate case process and allow the level of spending to be established annually or bi-annually by Commission order based on recommendations from the previously established Southwest DSM Collaborative." Does SWEEP support this approach?
- A. Not entirely. SWEEP supports the involvement of the DSM collaborative and the input and recommendations of collaborative members. However, SWEEP recommends the following process, which is more responsive to customer needs and

47 the increasing level of customer interest in the DSM programs, while retaining
48 Commission review and approval of any proposed new programs.
49

50 First, for Commission-approved DSM programs, the spending levels are set initially
51 as part of the Commission review and approval process. For these Commission-
52 approved programs, the spending levels should be able to increase in between rate
53 cases in response to program success and customer participation. Since the programs
54 are cost-effective (i.e., by definition, lower cost than any other resources to meet
55 customer energy needs), if customer interest and participation in the DSM programs
56 are driving spending to be higher than estimated and set initially, the program
57 spending should be increased and the increased spending should be recovered through
58 the DSM adjustor. The Commission should be notified of the DSM program
59 spending increase, though the spending increase should not require Commission pre-
60 approval or other action by the Commission.¹ Any delay in increasing DSM spending
61 to meet customer needs would result in waiting lists and dissatisfied customers, as
62 well as higher total costs for customers.
63

64 Second, Southwest Gas and/or DSM collaborative members should be able to propose
65 new DSM programs in between rate cases. New programs should be reviewed by
66 Staff and approved by the Commission prior to implementation, consistent with
67 current practice. New programs should include an estimated spending level in the
68 program description. Once approved by the Commission, spending for new DSM
69 programs should be recovered through the DSM adjustor.
70

71 Third, the Commission should set the overall direction for DSM in rate cases, as it
72 has been doing, or alternatively in resource planning proceedings in which the
73 Commission is considering and comparing the attributes, costs, and benefits of future
74 resources.
75

76 As part of the above process, the collaborative DSM working group should review
77 and provide input for any significant program revisions and proposals for new
78 programs.
79

80
81 Q. Considering the process you recommend above, the rebuttal testimony of Southwest
82 Gas, and the testimony of other parties, have you changed the recommendations in
83 your direct testimony regarding DSM spending?
84

85 A. No. SWEEP continues to recommend a significant increase in DSM efforts to
86 provide benefits to Southwest Gas customers and mitigate the effects of any rate
87 increase. As noted above, the Commission should set the overall direction for DSM
88 in rate cases. Specifically, SWEEP continues to recommend that funding for the
89 DSM portfolio of programs should be increased, to at least \$12 million annually,
90 equivalent to about 1.2% of total revenues and \$12.70 per customer. The current

¹ The Commission continues to have the authority and ability to initiate any DSM program revisions or spending adjustments it feels are appropriate, and Staff could provide any such recommendations to the Commission on its own initiative.

91 Commission-approved DSM program funding of \$4.4 million is equivalent to about
92 0.4% of total revenues and \$4.70 per customer.² SWEEP recommends that the
93 Commission set this level as the target for DSM spending in 2010, with a ramp up in
94 2009.

95
96 SWEEP recommends that the additional funding be used to expand existing programs
97 to reach more customers. Also, additional cost-effective DSM programs could be
98 considered for future years, and should be implemented if approved by the
99 Commission in the future.

100
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102 Q. Does SWEEP support the current Southwest Gas DSM programs? Is SWEEP
103 concerned about the rate of ramp up of the programs?

104
105 A. SWEEP supports the cost-effective natural gas DSM programs proposed in the prior
106 rate case, as modified and approved by the Commission. However, SWEEP is
107 concerned that the ramp up of the DSM programs is moving too slowly. Southwest
108 Gas expects 2008 DSM spending to be about \$2.9 million, which is part of the ramp
109 up to full implementation of the programs, most of which were approved by the
110 Commission in 2007. The 2009 DSM spending is expected to be at the \$4.4 million
111 funding level approved by the Commission in the prior rate case. SWEEP
112 recommends that the DSM program ramp up be accelerated during 2008 and 2009.

113
114
115 **Financial Disincentive to Natural Gas Utility Support of Energy Efficiency**

116
117 Q. Are there actions that could be taken to pilot the decoupling mechanisms?

118
119 A. Yes. SWEEP supports the implementation of both decoupling mechanisms, RDAP
120 and WNAP, as a three-year pilot, with annual tracking during the pilot, and with
121 evaluation and review at the end of the pilot – similar to the proposal in my direct
122 testimony and consistent with the Southwest Gas rebuttal testimony (Congdon, p. 22).
123 Also, to help reduce or address the concerns of other parties, an initial maximum cap
124 could be placed on any revenue or refund from any differences between actual and
125 authorized non-gas revenue, to reduce some of the uncertainty regarding the effects of
126 the mechanism during the pilot.

127
128 SWEEP suggests that the experience of pilot implementation will do more to resolve
129 the differences among parties than continued debate in this or subsequent rate cases.

130
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² \$4.4 million of DSM program portfolio funding divided by \$996.4 million of test year total revenues, per Southwest Gas Schedule E-6.

Higher Basic Service Charges

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Q. Should the Commission approve higher basic service charges for Southwest Gas, as proposed by Southwest Gas, Staff, and RUCO?

A. No. SWEEP opposes higher basic service charges for natural gas customers because higher basic service charges would mute and reduce the price signal customers would receive when they reduce energy use and become more energy efficient.

Conclusion

Q. Does that conclude your surrebuttal testimony?

A. Yes.