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Arizona Corporation Commission

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8 Attorneys for Southwest Energy  
9 Efficiency Project

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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 ) **SOUTHWEST ENERGY EFFICIENCY**  
18 ESTABLISHMENT OF JUST AND ) **PROJECT REPLY BRIEF**  
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 The Southwest Energy Efficiency Project (SWEEP) submits the following Reply  
Brief in this matter.

**The Financial Interest of Southwest Gas Should Be Aligned More With the Public Interest to Benefit Customers.**

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. Removing the financial disincentive will increase Southwest Gas

1 support for energy efficiency, which would result in customer benefits including  
2 reductions in both gas usage and energy costs. Increased Southwest Gas support for  
3 energy efficiency should include expanded and additional DSM programs, and it should  
4 also include increased support of customer education and awareness efforts, energy  
5 efficient appliance standards, building energy codes, and state or federal legislation to  
6 increase energy efficiency. SWG Brief at Attachment 3; SWEEP Brief at 7.

7 Southwest Gas included a proposed plan of specific actions the Company would  
8 take to aggressively promote energy efficiency if decoupling was approved. SWG Brief  
9 at Attachment 3. SWEEP supports the customer education and awareness, stakeholder  
10 involvement, and other actions the Company proposed. The Company should also  
11 increase its support for energy efficient appliance standards, building energy codes, and  
12 state or federal legislation to increase energy efficiency, as complementary policies.  
13 SWEEP Brief at 7.

14 **A Decoupling Mechanism is Appropriate and Should Be Adopted to Increase**  
15 **Energy Efficiency and Reduce Customer Costs.**

16 Staff states that a decoupling mechanism could be appropriate if there is significant  
17 energy conservation that is not being done and there are actual impediments to the  
18 company to get it done. Staff Brief at 29-30. Staff also states that it is unclear whether  
19 there is significant additional conservation to be achieved in this circumstance. Id. at 30.

20 The undisputed fact that the current DSM programs are reaching a small fraction  
21 of Southwest Gas customers means that there is significant additional energy conservation  
22 to be achieved from all of the remaining unserved customers. In addition, expanding  
23 DSM includes new programs that address additional opportunities. SWEEP Brief at 2. In  
24 terms of the impediment to Southwest Gas, energy savings by customers (which are  
25 beneficial for customers) result in lower revenues for the Company and threaten full

1 recovery of utility fixed costs. This financial disincentive reduces utility support and  
2 enthusiasm for cost-effective energy efficiency. SWEEP 1 at 4.

3 Significant additional energy savings exist and those savings can be captured by  
4 DSM programs and other energy efficiency efforts. Under the current framework,  
5 Southwest Gas has an actual impediment and financial disincentive to increase such  
6 energy efficiency efforts to capture the savings and decoupling would remove this  
7 impediment and financial disincentive. Therefore, decoupling should be adopted by the  
8 Commission.

9 **The Commission Should Approve Both the RDAP and WNAP Decoupling**  
10 **Mechanisms as a Three-Year Pilot.**

11 The Commission should approve both the RDAP and WNAP decoupling  
12 mechanisms as a three-year pilot, with annual tracking during the pilot, and with  
13 evaluation and review at the end of the pilot. To help address or reduce the concerns of  
14 other parties, an initial maximum cap (or bandwidth) could be placed on any revenue or  
15 refund from any differences between actual and authorized non-gas revenue, to reduce  
16 some of the uncertainty regarding the effects of the mechanisms during the pilot. SWEEP  
17 Brief at 6.

18 SWEEP acknowledges that the decoupling issues are in dispute among the parties,  
19 and have been in dispute for years despite the prior rate case proceeding and the prior  
20 workshops. The experience gained from a pilot implementation of decoupling will do  
21 more to resolve the differences among parties and to increase understanding of the  
22 impacts of decoupling than continued debate in this or subsequent proceedings or  
23 workshops. SWEEP Brief at 6.

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1 **The Questar Pilot of Decoupling Has Been a Positive Experience and Has Provided**  
2 **Benefits to Customers.**

3 Questar Gas in Utah is operating a pilot program of decoupling currently. In  
4 response to the adoption of decoupling, Questar went from almost no energy efficiency  
5 programs to having very good programs in place within a year. The programs have  
6 continued to grow since early implementation. Questar has also implemented customer  
7 marketing, outreach, and education efforts that have been successful in increasing  
8 customer participation and energy efficiency. AIC Brief at 8. SWEEP has observed this  
9 increase in efforts and enthusiasm at Questar Gas first hand and now considers Questar a  
10 leading gas utility in terms of the quality and effectiveness of its DSM programs, and the  
11 number of customers who benefit from the programs. Southwest Gas would be motivated  
12 to do the same under decoupling.

13 The decoupling pilot itself helped to push Questar Gas to perform well in terms of  
14 early and effective implementation of its DSM programs, because it ran the risk of losing  
15 decoupling in the event of poor performance during the pilot. Hansen oral testimony,  
16 6/18/08; SWG Brief at 76.

17 **The Commission Should Approve Decoupling in this Proceeding and Should Not**  
18 **Defer the Issue to the Generic Investigation.**

19 Staff proposed deferring decoupling to the generic investigation into regulatory  
20 and rate incentives for natural gas and electric utilities (Docket Numbers G-00000C-08-  
21 0314 and E-00000J-08-0314). Staff Brief at 23-24.

22 The Commission's recently-opened generic investigation should not result in a  
23 delay of Commission action in this case regarding decoupling, or a deferral of the  
24 decoupling issues in this case to the generic investigation. The record in this case is  
25 sufficient to support Commission approval of the RDAP and WNAP decoupling  
mechanisms as a three-year pilot. SWEEP Brief at 7.

1 **Cost-Effective DSM Programs Should Increase, Substantially and Expeditiously, to**  
2 **Benefit Southwest Gas Customers.**

3 Cost-effective Demand Side Management (DSM) programs should continue to  
4 ramp up and expand, substantially and expeditiously, to serve Southwest Gas customers,  
5 so that more customers can reduce their natural gas costs and mitigate the effects of any  
6 rate increase through increased energy efficiency. SWEEP Brief at 1. With rising energy  
7 prices it is essential for all customers to have access to DSM services. Id.

8 Staff proposes an increase in DSM programs of \$1 million per year for each year  
9 2010 through 2012, and Staff disagrees with SWEEP's proposal to ramp up DSM to at  
10 least \$12 million annually as a target for DSM spending in 2010. Staff Brief at 44;  
11 SWEEP 1 at 3. To date the Southwest Gas DSM programs have reached a very small  
12 percentage of total customers and a small portion of the cost-effective opportunities.  
13 Schlegel oral testimony, 6/20/08. The additional DSM funding should be used to expand  
14 existing programs to reach more customers. Also, additional cost-effective DSM  
15 programs could be considered for future years, and should be implemented if approved by  
16 the Commission in the future. SWEEP Brief at 2.

17 The Commission should set the SWEEP-proposed \$12 million annual level as the  
18 target for DSM spending in 2010, with a ramp up in 2009. The DSM spending levels  
19 should be able to increase in between rate cases in response to program success and  
20 customer participation. SWEEP Brief at 3.

21 Any delay in increasing DSM program spending to meet increasing customer  
22 interest and growing customer needs would result in waiting lists and dissatisfied  
23 customers, as well as higher total costs for customers. SWEEP Brief at 4. Therefore,  
24 program spending should be allowed to ramp up in response to customer demand and  
25 program participation. Schlegel oral testimony, 6/20/08. Increased marketing, outreach,

1 and education efforts by Southwest Gas are going to influence many more customers to  
2 participate in the DSM programs. Id.

3 Staff limited its discussion of decoupling to influencing DSM programs that the  
4 Company administers. Staff Brief at 24-26. Increased energy efficiency actions as a  
5 result of decoupling are much more than just DSM programs and include the additional  
6 efforts and support for energy efficiency that the Company and SWEEP have proposed in  
7 this proceeding. SWG Brief Attachment 3; SWEEP Brief at 7.

8 DATED this 22<sup>nd</sup> day of August, 2008.

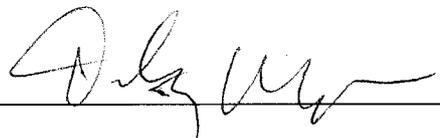
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16 ORIGINAL and 13 COPIES of the  
17 foregoing filed this 22<sup>nd</sup> day of  
August, 2008 with:

18 Docketing Supervisor  
19 Docket Control  
20 Arizona Corporation Commission  
1200 W. Washington  
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21 COPIES of the foregoing electronically  
22 transmitted this 22<sup>nd</sup> day of August, 2008  
to all parties of record

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