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Janet Napolitano
Governor

Stephen Ahearn
Director

September 3, 2008

Arizona Corporation Commission
DOCKETED

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RECEIVED

Mr. Ernest Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Re: Investigation of Regulatory and Rate Incentives for Gas and Electric Utilities (Docket E-00000J-08-0314 and G-00000C-08-0314)

Dear Director Johnson:

RUCO provides these comments on regulatory and rate incentives for gas and electric utilities, in response to Staff's request.

In general, RUCO does not favor non-traditional ratemaking as an incentive to influence a utility's behavior. If regulation is working, utilities should not need additional incentives to keep operational expenses low, other than the opportunity to earn a reasonable rate of return. Moreover, as the Commission has seen time and time again, once the Commission makes the slightest exception to a standard ratemaking practice, it becomes the practice of all regulated industries to request the exception for virtually every rate application thereafter.

However, RUCO is aware that times are changing, energy utilities are experiencing volatile generation costs, gas utilities are experiencing declines in usage and the time has come to conduct an environmental scan of our traditional practices vis-à-vis other regulatory jurisdictions. RUCO supports and will participate in the Commission's docket to consider and compare alternative regulatory structures provided there is a legal basis for any change ultimately promoted by the Commission.

RUCO would add the following questions to assist in defining the scope of the inquiry:

1. For each alternative to the rate of return/rate base model, please set forth the legal basis, if any.
2. For each alternative to the rate of return/rate base model, please explain if the alternative violates the following regulatory principles:
 - A) Used and Useful
 - B) Matching Principle
 - C) Known and Measurable
 - D) Historical Test Year
 - E) Fair Value Rate Base
3. Please explain the need, if any, for the incentive.
4. Are incentives necessary for utilities to meet their generation requirements in the future?
5. If so, why were the incentives not necessary before?
6. Please explain if there are currently incentives in place.
7. If so, please explain why you believe the incentive in place is not working and/or needs to be improved upon?
8. In general, do incentives only benefit the shareholder, or do they benefit ratepayers also?
9. For each incentive if applicable, please explain if the cost should be borne by ratepayers, shareholders or both (if both, in what percentages)?
10. For each incentive if applicable, please explain if the gain should be shared by ratepayers, shareholders or both (if both, in what percentages).
11. For each incentive if applicable, please explain if there are resulting efficiencies and if so, how the efficiencies should be accounted for in the ratemaking model.
12. If possible and applicable, please estimate the cost for each incentive.

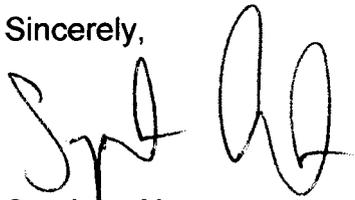
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13. If possible and applicable, please estimate the resulting benefit for each incentive.
14. Please describe the non-financial benefits associated with each alternative.
15. Are decoupling mechanisms more appropriate for energy or gas companies or does it not make a difference?
16. Are decoupling mechanisms appropriate for utilities in Arizona?

I hope that you will find these questions helpful. These questions are not meant to be all-inclusive, but rather a start. RUCO looks forward to being a part of this process and assisting the Commission in finding solutions to address the regulatory challenges that face the Commission in both the near and distant future.

I apologize to the Commission, the Commission Staff and other interested parties for the delay in my responding to the August 1 request.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Ahearn', written over a faint, illegible typed name.

Stephen Ahearn
Director

cc: Docket Control
Service List via U.S. Mail