E-01345A-08-0172

0000092287

ORIGINAL

Arizona Corporation Commission
DOCKETED
JAN - 8 2009
DOCKETED BY

RECEIVED
2009 JAN -8 P 4: 52
AZ CORP COMMISSION
DOCKET CONTROL

John LeSueur

From: paul@arizonainsight.com
Sent: Wednesday, January 07, 2009 4:29 PM
To: Gary Pierce; John LeSueur
Cc: Ken Clark
Subject: Energy Efficiency Opportunity in Fuel Markets

Gary and John,

Ken told me about the conversation you all had regarding the idea of using the fall in energy costs to fund major energy efficiency and DSM programs. Let me start by identifyint the amount of money we are looking at in terms of cost declines:

From Direct Testimony of Ralph Smith for ACC Staff, Page 93.

Q. How has Staff revised APS' proposed base cost of fuel and purchased power at this time?
A. In adjustment C-15, I have removed APS' pro forma adjustment of $129.649 million related to projected 2010 fuel and purchased power expense and replaced it with $97.332 million based on APS' most recent forecast of 2009 fuel cost. **This adjustment decreases APS' proposed fuel cost by $32.317 million....As described in APS' response to Staff 17.6, fuel costs have declined:**

On September 30, 2008, ***APS*** filed its preliminary estimate for the 2009 PSA Forward and Historical Component Adjustors based on a forecast that assumed August 29, 2008 forward market prices
for natural gas and purchased power.

"Based on our latest forecast using September 30, 2008 market prices, 2009 projected fuel and purchased power costs have decreased by approximately $10 million since the 9/30/08 PSA filing. The forecast based on 9/30/08 market prices shows that 2009 natural gas and purchased power prices
have declined for 2009 delivery by approximately 12% and 10% respectively. ***We have hedged approximately 85% of our gas and power needs for 2009; leaving a reduction in fuel and purchased power costs of approximately $17 million.***

Offsetting this reduction is an increase in coal contract costs of approximately $6 million related primarily to higher railroad surcharges and fuel costs at the coal mines. All other changes are smaller than $5 million and net to a reduction of $1 million. ***APS*** *is required to file on or before December 31st an update to the adjustors and that will be the basis for the February '09 adjustor. "*

We are talking about serious money if the ACC can apply it to real energy efficiency and DSM programs, but if it is instead used to decrease fuel costs from APS customers we are looking at $1.41 to $2.67 PER YEAR decreases.

($17,000,000 divided by 1.2 million customers; or $32,000,000 divided by 1.2 million customers).

The policy issue is this: Is funding EE/DSM directly related to fuel costs? If so, then the ACC can reallocate the cost reductions to funding major EE/DSM programs. To me it seems absolutely clear that EE/DSM (if funded and if performance metrics are required) will reduce demand and thus reduce exposure to peak fuel costs - thus the policy test is solved.

As Ken may have indicated, this idea is new and I haven't circulated it beyond the people on this email. But if you're interested in working on this and maybe moving it forward, I'd be glad to help in any way possible.

Paul Walker
Insight Consulting, LLC
40 North Central, Suite 1400
Phoenix, AZ 85004
602.343.1805 office
602.703.4205 cell