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BEFORE THE ARIZONA CORPORATION COMM:

IN THE MATTER OF THE)	DOCKET NOS.
INVESTIGATION OF REGULATORY)	E-00000J-08-0314
AND RATE INCENTIVES FOR)	G-00000C-08-0314
GAS AND ELECTRIC UTILITIES)	ENERGY EFFICIENCY
)	WORKSHOP
)	SPECIAL OPEN MEETING

At: Phoenix, Arizona

Date: March 27, 2009

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Arizona Corporation Commission
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1 BE IT REMEMBERED that the above-entitled and
2 numbered matter came on regularly to be heard before the
3 Arizona Corporation Commission, in Hearing Room 1 of
4 said Commission, 1200 West Washington Street, Phoenix,
5 Arizona, commencing at 9:38 a.m., on the 27th of March
6 2009.

7
8 BEFORE: KRISTIN K. MAYES, Chairman
9 PAUL NEWMAN, Commissioner
10 SANDRA D. KENNEDY, Commissioner
11 BOB STUMP, Commissioner

12 APPEARANCES:

13 For the Arizona Corporation Commission:

14 Mr. Ernest Johnson

15 For Arizona Public Service Company:

16 Mr. Jeff Guldner

17 For Grand Canyon State Electric Cooperative Association:

18 Mr. John Wallace

19 For Sustainable Arizona:

20 Mr. John Neville

21 For Arizona Municipal Power Users Association:

22 Mr. Michael Curtis

23 For Southwest Energy Efficiency Project:

24 Mr. Jeff Schlegel

1 APPEARANCES:

2 For Southwest Gas Corporation:

3 Mr. Justin Lee Brown

4
5 For Western Resource Advocates:

6 Mr. David Berry

7 For Navopache:

8 Mr. Dennis Hughes

9
10 For Insight Consulting:

11 Mr. Paul Walker

12 For Freeport-McMoRan:

13 Mr. Don Stoneberger

14
15 For Gila County:

16 Ms. Malissa Buzan

17 For Tucson Electric Power/UniSource:

18 Mr. Ray Heyman

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24

25

1 CHMN. MAYES: This is the second workshop in the
2 docket entitled investigation of regulatory and rate
3 incentives for gas and electric utilities, aka energy
4 efficiencies incentives.

5 Welcome to the Commission. Thank you all for
6 being here again. And what we want to do is go through,
7 essentially I am going to have Staff make some
8 introductory comments, but we are going to go through
9 the speakers or the companies that we didn't get through
10 the first go round to talk about their responses to the
11 inquiry that we originally put out and of course
12 anything else that they would like to add. I think, and
13 then we will wrap up later on this afternoon and decide
14 where we want to go from here, likely, my guess it will
15 be additional rounds of workshop meetings.

16 The Commissioners, most of us, have a lunch that
17 we have to go to, which is around 12:00. So I think
18 what we will do is break at 11:30 and come back at
19 either 1:15 or 1:30. I will talk about that with the
20 Commissioners. I don't know what their druthers are
21 going to be.

22 So why don't we kick it off with Mr. Johnson for
23 some introductory comments. And then I think I am going
24 to go to Mr. Curtis with Mohave and Navopache, John
25 Wallace from the co-ops, Southwest Gas, and then David

1 Berry from Western Resource Advocates.

2 MR. JOHNSON: Good morning, Chairman,
3 Commissioner Kennedy. Ernest Johnson, Utility Division.

4 Just by way of a couple housekeeping items this
5 morning, folks, if you don't have an agenda, we have
6 them outside. There are some additional documents
7 outside, including some topics for further discussion.
8 And if you will see, there is a list of items that we
9 are going to ask people to help address this morning.

10 I also understand that some of you may have
11 undertaken a homework assignment. And there is some
12 question relative to what is reflected in the bill. And
13 what we are going to be suggesting later as we talk is
14 that, to make sure the methods we use are in sync, that
15 we hold a technical conference to look at those things.
16 So I am going to ask you to give some consideration to
17 that and, as you come forward today, maybe you can offer
18 some thoughts in that area as well as. And even though
19 there might be some who are not identified specifically
20 as speakers today, any time we want you to feel free to
21 come forward and offer comments.

22 Additionally, from talking to some of you, and
23 consistent with Staff's view anyway, we think there
24 might be some benefit in subsequent meetings to separate
25 natural gas from electric. And we are going to ask you

1 to speak to that issue as well as you come forward. We
2 think it, it recognizes the appropriate distinctions
3 between the two but also it may lead to more, a more
4 efficient subsequent dialogue.

5 And some of the things that the Commission may
6 be speaking to today is ultimately where we go, are we
7 going to be looking at a rulemaking, are we going to be
8 looking at individual procedures, where are we going to
9 wind up in terms of the issues under discussion. And so
10 to the extent you come forward and offer comments,
11 please comment along those lines as well.

12 The next meetings we will need to talk about
13 that later today. And probably, if we can, we will
14 probably try to have the electric and gas on the same
15 day, just at different times, make it more efficient for
16 everybody.

17 So Julie or Barbara, anything else that we need
18 to share?

19 All right. Having concluded our initial
20 remarks, Madam Chairman, I guess it is appropriate to
21 continue through the agenda.

22 CHMN. MAYES: Thank you, Mr. Johnson.

23 And I do have a speaker slip as well from John
24 Neville, who I know takes great interest in energy
25 efficiency issues. He is down in Sedona. So I am going

1 to sneak him in between Mr. Curtis and Mr. Wallace so,
2 if he has to go back home, he can do that. But we will
3 start with Michael Curtis.

4 Michael, are you here?

5 (No response.)

6 CHMN. MAYES: Michael? No. Okay. Well, we
7 will skip Michael for now and go to John Wallace.

8 John, are you here from the co-ops? And after
9 John we will take Mr. Neville.

10 MR. WALLACE: Good morning, Chairman Mayes and
11 Commissioners. My name is John Wallace. I am appearing
12 on behalf of the Grand Canyon State Electric Cooperative
13 Association. I am going to make my comments fairly
14 brief.

15 We have filed comments recently, I believe on
16 Wednesday, the 25th, to in an attempt try to answer some
17 of the Chairman's questions regarding an overall goal of
18 one and a half percent in kWh savings each year. We
19 have a few systems that are here in terms of we have
20 solar representative from Sulphur Springs here as well
21 as a representative from Navopache who would also be
22 able to answer any questions you might have about
23 specific questions. They are two of the co-ops that
24 have Commission approved DSM programs. And they
25 currently have an adjuster to collect money for those

1 programs to fund those.

2 I am sorry, Chairman Mayes, do you have a
3 question?

4 CHMN. MAYES: Well, I did. Mr. Wallace, so I
5 knew that Sulphur Springs had an energy efficiency
6 program in place already. And you said Navopache does
7 as well now.

8 MR. WALLACE: That's correct.

9 CHMN. MAYES: And so only, am I correct only two
10 of the cooperatives even have energy efficiency programs
11 right now?

12 MR. WALLACE: Well, that's true that they
13 collect funds through an adder to fund those programs.
14 The other cooperatives participate in an education,
15 customer education, of which I believe that you have
16 received some information from Mr. Hughes today from
17 Navopache on, that they distribute regularly at meetings
18 with customers and meetings as well as through their
19 newsletters and other publications that they put out,
20 things like what you can do as a customer, where you can
21 turn for information on energy efficiency, and et
22 cetera.

23 In an attempt to be brief, I would just say that
24 we are very interested in pursuing energy efficiency as
25 cooperatives and we are looking forward to this process.

1 We have a pretty big disparity in terms of, and you can
2 see in some of the numbers, in cooperatives and their
3 current programs. It is going to take more effort in
4 the smaller cooperatives to get their programs up to
5 speed and to get programs on the ground and running.

6 We are also looking forward to hearing the other
7 parties' comments about what some of the best practices
8 are so that we in turn can adopt those practices.

9 We are currently, you know, evaluating both
10 energy efficiency and renewable programs in our
11 territories and we are also looking at what these
12 programs, which of these programs could qualify for
13 stimulus funds.

14 I think the main thing for us as we have looked
15 at whether we can achieve a hard one and a half percent
16 goal is that, in looking at that, that's a pretty far
17 reach for us currently in our situation. We are
18 advocating that each cooperative be able to file a
19 demand-side management energy efficiency plan that would
20 propose goals that would be appropriate for each
21 individual cooperative. And obviously the Commission
22 would review that plan, approve that plan. And then, as
23 a part of that, we would have a budget for those
24 programs and set forth the recovery mechanism.

25 And as you are aware, the cooperatives are

1 not-for-profit entities. So you had some questions
2 about performance incentives. And performance
3 incentives may work well for investor owned utilities
4 who are, you know, interested in, you know, increasing
5 their bottom line for the cooperatives. We are looking
6 at things that can increase the quality of the service
7 for our customers or decrease the cost for our
8 customers. So traditional performance based incentives
9 are not going to work as maybe they do for, as well as
10 they do for investor owned utilities for our
11 cooperatives.

12 And I think that's pretty much what I had today.
13 And I will try to answer any general questions that you
14 might have about programs. And I can also turn to
15 Mr. Hughes and David Bane from Sulphur Springs if you
16 need more information.

17 CHMN. MAYES: Okay. Thank you, Mr. Wallace. It
18 is an interesting issue that you raise, which, you know,
19 I know raised in the course of the renewable energy
20 proceedings. But wouldn't it be true, tell me if I am
21 not correct in this, but wouldn't it be true that
22 because the co-ops don't have the same need to return on
23 investment, or essentially to make a profit, that there
24 wouldn't be the same counter pressure to doing energy
25 efficiency at co-ops?

1 I guess I am wondering why you are not
2 indifferent to energy efficiency as opposed to any other
3 kind, why you wouldn't be doing as much as you possibly
4 could given the fact you are trying to get the cheapest
5 possible energy for your customers and that's it. It is
6 interesting. That has been your argument against
7 renewable energy, which is too expensive, therefore your
8 customers don't want to pay for it.

9 We did give you some latitude in the RES, as you
10 recall, because of the differences between co-ops and
11 IOUs. But wouldn't the opposite be true with energy
12 efficiency? Wouldn't you want to be maximizing the
13 amount of energy efficiency you do because you don't --
14 you want to be getting the cheapest form of energy? And
15 it is the cheapest form of energy?

16 MR. WALLACE: That's correct.

17 CHMN. MAYES: So in which case why do only
18 co-ops in the State of Arizona have energy efficiency
19 programs?

20 MR. WALLACE: Well, we have co-ops that have
21 been performing customer education on this topic.

22 CHMN. MAYES: But that's not really energy
23 efficiency.

24 MR. WALLACE: And while they do not have formal
25 plans, we were looking at filing those plans as a

1 possibility of that demand-side management effort by
2 Staff that took place back when I believe Staff was
3 contemplating rules. And so, you know, we have two
4 cooperatives that are before you with rate cases that
5 they have both included demand-side management energy
6 efficiency as a part of those rate cases.

7 So to answer your question, we are committed to
8 doing more. We know we need to do more with our
9 cooperatives in what they do. And we are motivated by
10 that fact, you are right, that's the cheapest form, is
11 the kWh that's never used.

12 CHMN. MAYES: In which case why haven't you set
13 a goal for yourself? I mean, and the second part to
14 that question will be: Do you have any opposition to a
15 20 percent by 2020 goal?

16 MR. WALLACE: Well, I think that the
17 cooperatives that have programs right now have set goals
18 for themselves. Even the cooperatives that do
19 advertising of DSM have a budget to work under and
20 whatnot.

21 And, I am sorry, the second part of your
22 question?

23 CHMN. MAYES: Well, we have been talking about
24 the possibility of setting a standard or a goal,
25 whatever you want to call it, of some percentage by some

1 date, you know, akin to the renewable energy standard,
2 20 percent by 2020, something like that. And do you
3 have a sort of, any sort of obligation -- or opposition
4 to that?

5 MR. WALLACE: I think that that would be a fine
6 goal to set. However, it is going, each individual
7 co-op is going to have a realistic amount that they can
8 accomplish in their service territory for a variety of
9 reasons. So while that would be considered an, could be
10 considered an overall goal, what we caution you and want
11 you to consider is what the individual cooperative's
12 situation is and how much is achievable in their service
13 territory.

14 CHMN. MAYES: Okay. Commissioner Newman.

15 COM. NEWMAN: Good morning, Madam Chairman.
16 Good morning, everyone in the audience. Sorry I am so
17 late. We have some budget negotiations going on with
18 the legislature and I am trying to juggle that. It is
19 pretty important as well.

20 I, as you know, am from southern Arizona, a
21 rural area. And I used to be in the legislature. I
22 have a very close relationship with the cooperatives.
23 And I am concerned.

24 I am sorry I missed your presentation, but I
25 think I know where you are coming from. The question I

1 want to know, even -- and I have to be careful about
2 this because there is a case pending, a couple cases
3 pending -- even with Sulphur Springs, let's say, that
4 has an ambitious goal, we haven't been seeing much
5 participation from individuals. Now, you are a
6 cooperative. You are part of a national group of
7 cooperatives, huge players in the United States. So
8 just looking at the numbers, even from Sulphur Springs,
9 the number of people who are engaging in your EE, your
10 demand-side management program, let me say just very
11 small, very small.

12 And I just don't get it. I don't understand why
13 the grand -- you know, you are representing the state
14 cooperative group. And everyone in the country gets it.
15 I just came back from Washington. Everyone in the
16 country, including the Obama administration, every
17 single regulatory agency in the country, not only this
18 Corporation Commission, they understand that EE is the
19 bridge to the future in terms of not needing new plant.
20 And I understand that there is even some things on the
21 drawing board, plans on the drawing board for creating
22 new plant as we speak, which will in essence raise the
23 rates for the consumers, which we are beholden to take
24 care of, and, technically, you are as well.

25 I don't understand why you would stand up here

1 today and sort of make a representation that we already,
2 you know, that we can't meet those goals or we don't
3 want to meet those goals, be careful about setting a
4 standard. Shouldn't you be up here today saying you
5 want to join and do this because it is in the interest
6 of the ratepayers?

7 MR. WALLACE: Chairman Mayes and Commissioner
8 Newman, I think you missed the first part of my
9 presentation. I said that we are committed and want to
10 do more.

11 And to answer your question about both the
12 renewable side and the energy efficiency side, we
13 believe the reason that customers haven't done more is
14 because on the renewable side they still have to come up
15 with money to invest in renewables. It is no different
16 on the energy efficiency side. They have to come up
17 with money to put into, once you conduct an energy audit
18 and you tell them this is what you need to do, to your
19 house to make it more efficient, they have to come up
20 with funds to make those improvements.

21 We would like, through this process, to develop
22 ways that we can incent them to actually do that. We,
23 whether -- I know with, for instance, Sulphur Springs,
24 what they are considering is offering a, and I know
25 Duncan Valley also does this, offers no interest loans

1 to put in higher efficiency appliances, make
2 improvements to your house, energy efficiency
3 improvements.

4 It may, to get the kind of participation that
5 you are looking for, it may require that you offer
6 customers incentives. It will require that you offer
7 customers incentives. And then it is a question how
8 much of an incentive, like with the renewable energy
9 standard, are you willing to offer and what is the
10 benefit that you hope to achieve from that and how do
11 those balance.

12 And so to answer your question, we are committed
13 to doing more, but we are going to have to do some
14 things different. We realize that. And that's what we
15 want to come away from this process with, is an
16 understanding of, you know, here is what we are doing
17 now, here are some things that we can do to increase our
18 efficiency. But to sit here and tell you today that we
19 can meet a one and a half percent goal or 20 percent
20 standard when we are going to be heavily relying upon
21 our customers to adopt these measures, that's something
22 that's outside our control as a co-op.

23 We think that we can significantly increase the
24 participation if you decrease the cost to the individual
25 customer of participating in energy efficiency. But at

1 this point, without doing some further study, hearing
2 from the other utilities in the room that may have more
3 experience with this, we are not sure how to estimate
4 that in terms of what will, if you gave a customer
5 \$1,000 toward making their home more efficient, how many
6 customers will participate if it is going to cost them
7 \$3,000, for instance.

8 Those are the kind of issues that we are
9 wrestling with. And that's the reason for our
10 hesitation to say to you that we can meet a 20 percent
11 standard and we can support a 20 percent standard. It
12 is not a reluctance to do energy efficiency projects,
13 that's not it, but to sit here today and tell you we can
14 absolutely meet a certain percentage, we just don't, we
15 don't know.

16 COM. NEWMAN: I appreciate your response. I do,
17 because it is, it is rational and understandable.

18 What about the part which I am concerned about?
19 Let's take the \$3,000 first, or whatever amount of money
20 it may be. I have been told that the federal incentives
21 plus what we have in the fund already might be able to
22 get, let's say, solar water heaters in many peoples'
23 homes. I live in rural Arizona. I think people are
24 interested in that, if they knew about it, if it is a
25 wash.

1 Now, not many people -- the problem before was
2 many people didn't have this discretionary \$5,000. And
3 I certainly understand that. And I mean I have a lot of
4 colloquies with a lot of real people, not just people
5 with suits, lawyers, and administrative folks. But if
6 they got the message that money, if we incentivize them
7 to the extent that it is almost a wash, I don't
8 understand what the difference between a rural person in
9 Arizona versus an urban person in Arizona, for that
10 matter, if they really knew that it would almost be a
11 wash, why they wouldn't do it for the goal of security
12 for national independence. You are similarly situated
13 clients. We are all in this together.

14 MR. WALLACE: And Chairman Mayes, Commissioner
15 Newman, we agree. And currently we are offering an
16 incentive that would result in, we believe, a hot water
17 heater system being installed for about the same price
18 as a conventional system so that the customer has that
19 opportunity, if they need a hot water heater, and they
20 can make a choice, I have got to get a hot water heater,
21 I can get something renewable.

22 We also have a budget for advertising that we
23 are, that we are conducting advertising about renewable
24 projects that are available. But we haven't gone to the
25 level with that incentive to make it so that there is no

1 cost to the customer. And I think there would be a
2 danger in doing that. But we have gone to the point
3 where you can install the solar hot water heater for
4 about what you are installing a conventional hot water
5 heater for.

6 COM. NEWMAN: So that would be appropriate. Is
7 that retrofitting as well as the new homes?

8 MR. WALLACE: That, Chairman Mayes, Commissioner
9 Newman, I am speaking about retrofitting primarily. I
10 am not sure about the new home program, how that works
11 into the loop of -- I know that we are doing things with
12 developers but I am, I am not just sure about the hot
13 water heater program in particular for instance.

14 COM. NEWMAN: Well, I touched on this, I mean I
15 could talk to you for a little. I am very interested in
16 co-ops and I take my responsibility very seriously with
17 regard to co-ops.

18 And that is something I think that we, Madam
19 Chairman, we might be interested in, bringing in home
20 builders into this process at some point. I don't want
21 to put this gentleman, you know, on the line on new home
22 construction. I actually do know we are in a slump
23 right now. But given home building is the number one
24 industry next to tourism in Arizona, I think a
25 representative of the home builders should be in these

1 hearings. And I look forward to talking to them. I
2 think we should invite them here.

3 But, so, we will put that aside. And I threw
4 that out as sort of a canary, but that is something that
5 definitely should be happening here. We should be
6 planning for the future. The 5 million new homes that
7 are projected to be in Arizona in the next 25 years,
8 they should be at this table. You know, we should be
9 considering that.

10 So I guess my last question, because this is not
11 a grilling, this is just I am trying to get some
12 information from you, so you have something that
13 incents, wouldn't be a wash, how many of the
14 conglomerate of all the co-ops in the state and rural
15 areas, approximately how many customers? Does anybody
16 know the answer to that question?

17 MR. WALLACE: I want to say we are, Chairman
18 Mayes, Commissioner Newman, I want to say we are
19 approaching 160,000.

20 COM. NEWMAN: Around 200,000, approximately 2-,
21 that's good for me to know, so around 200,000 customers.
22 And every incentive is different for the different
23 cooperative areas, or is there a uniform, is there a way
24 to get to uniformity with regard to the co-ops of
25 200,000 customers?

1 MR. WALLACE: Chairman Mayes, Commissioner
2 Newman, we kept our programs very similar. And, also,
3 the incentives that we are talking about were actually
4 based on the incentives that were a part of a
5 collaborative process with the Commission and Staff and
6 other renewable energy participants, et cetera.

7 COM. NEWMAN: And I will just end where I began.
8 I was concerned when I, I am still learning about this,
9 I am concerned about the low participation in these
10 programs for the 200,000 customers. Any estimates about
11 of the 200,000 how many are participating?

12 MR. WALLACE: Chairman Mayes, Commissioner
13 Newman, by participating you mean have actually
14 installed renewable energy systems in their homes or at
15 their ranch or individuals we are talking about?

16 COM. NEWMAN: Yes.

17 MR. WALLACE: I am going to turn to the back of
18 the room and look to, I am actually going to ask Chris
19 Baggett if he could give me just a rough number.

20 Is it 300? 200?

21 MR. BAGGETT: We have about 215 installations.

22 MR. WALLACE: 215 installations in four of the
23 co-ops that participate in the AEPCO program. Sulphur
24 Springs, who is not participating the in AEPCO program,
25 has their own program similar to AEPCO.

1 How many are in your service territory?

2 CHMN. MAYES: Mr. Wallace, I am sorry, you know,
3 if we are going to be, and I appreciate the line of
4 questioning, but, you know --

5 MR. WALLACE: Would you like him to come
6 forward?

7 CHMN. MAYES: Yes. And let's do this quickly
8 because this is an energy efficiency workshop, not a
9 renewable energy workshop, although we all love
10 renewable just as much.

11 MR. BANE: My name is David Bane. I am from
12 Sulphur Springs Valley Electric Cooperative.

13 We have only had the hot water program, hot
14 water rebate program since January. And since we
15 started advertising that, our interest is growing. And
16 we are getting probably three to five calls a week just
17 in my office alone on hot water heating. It is still
18 new to our local plumbers. They are getting into the
19 idea. I expect to see, see some progress on that as we
20 continue to let people know that rebates are available.

21 COM. NEWMAN: Okay. And approximately, you said
22 again, I am sorry, I missed it, the number?

23 MR. BANE: Just in my office, and the other
24 auditor, he gets -- between the two of us we get three
25 to five calls a week.

1 COM. NEWMAN: I know. But approximately how
2 many people?

3 MR. BANE: As of yet we haven't seen anything
4 installed at this point because, again, people are
5 getting information and bids at this point. I don't
6 know solar. The solar is not my forte.

7 I don't have the number off the top of my head.

8 COM. NEWMAN: I was speaking about the energy
9 efficiency part. I really am trying to figure out,
10 guesstimate. It is as low as I thought, given this,
11 actually very low.

12 MR. BANE: On Sulphur Springs' energy efficiency
13 program, we have had the energy efficiency home program
14 for about 15 years.

15 COM. NEWMAN: I know.

16 MR. BANE: And each year we have to kind of
17 increase our standards a little bit because what we
18 suggest to people has become the norm. So we keep
19 increasing, you know, the installation levels, the
20 quality of the windows, the efficiency of heating and
21 cooling systems to keep one step ahead of what has
22 become normal.

23 As to people replacing older heating equipment
24 with high efficiency heat pumps, we are probably looking
25 at 15 to 20 per month we get requests for the rebates,

1 because we do offer a \$500 rebate to go to a higher seer
2 than the lowest one allowed. We have got good
3 participation on that.

4 The HVAC contractors know about our program and
5 they are, they are our best salespeople for energy
6 efficiency when it comes to heating and cooling.

7 COM. NEWMAN: Okay, thank you. Just one -- I am
8 going to close this up with where I began. It seems to
9 be very low rates of participation. That's just low.
10 And that's not necessarily the company's fault. That's
11 a dynamic. But we need to improve on that.

12 Just one last point. I have been recently told
13 about air conditioning, really efficient HVAC units,
14 talking about appliances, that perhaps the ACC can help
15 to incent. And it is a no brainer really as well, not
16 only for water efficiency but also for energy
17 efficiency. So does Grand Canyon co-op and its members
18 have an HVAC program in place? And what can -- what do
19 you, what do you propose the Commission should do to
20 help you get more participation? That's my last
21 question.

22 MR. WALLACE: And I can only answer that
23 question generally. We think, from our perspective, you
24 are going to have to bring the price of the energy
25 efficiency measure down to the end consumer if you want

1 them to adopt it, we think that right now is -- whether
2 you are talking renewables or energy efficiency. So I
3 think we would generally advocate for an incentive to
4 put in that system.

5 Now, what that incentive is, that's kind of the
6 tricky part because you don't want to make it free but
7 you want it to be a big enough incentive that people are
8 going to adopt it on a large basis or large scale. In
9 terms of what the individual co-ops have with heating
10 and air conditioning, current programs, I would have to
11 defer that to the, to the -- right now.

12 COM. NEWMAN: Okay, thanks very much. And I
13 appreciate your testimony.

14 CHMN. MAYES: Thank you.

15 MR. WALLACE: Thank you, Commissioner.

16 CHMN. MAYES: Hang on, John.

17 Commissioner Kennedy.

18 COM. KENNEDY: Thank you, Madam Chairman.

19 Madam Chairman, good morning, Mr. Wallace. How
20 are you this morning?

21 MR. WALLACE: Just fine Commissioner.

22 COM. KENNEDY: Good. I read your response to
23 the Chairman's question, question number 4. And she
24 tagged on it a little bit this morning. And I do have
25 some concern that you have basically put in writing that

1 it is not realistic to do the, to do or achieve the
2 1.5 percent annual savings in kilowatt hours.

3 But I have not heard or seen from the co-ops,
4 and please school me if I am missing it, an alternative
5 or any recommendations to the Commission or to the
6 Chairman on what the co-ops can do that does not put
7 them in the same category as all utilities. I am
8 missing that.

9 MR. WALLACE: Chairman Mayes, Commissioner
10 Kennedy, that's correct. We have not put forth a
11 proposal of what we think we can achieve. That would be
12 a stretch but we think we can get there. We would
13 anticipate that we would do that as a part of this
14 process, that we would be filing a plan. And in that
15 plan it would identify a, based on the cooperative and
16 what they are doing right now, a realistic goal that
17 could be achieved for energy efficiency, and a budget as
18 well as the amount that we would need to collect through
19 surcharge to be able to fund those programs.

20 And so you are correct, you do not see that in
21 front of you today.

22 COM. KENNEDY: Well, Madam Chairman,
23 Mr. Wallace, we are here today. I mean we have been
24 here now, this is the second meeting. Why not throw
25 some ideas out so that it makes us think that you are

1 trying to do what is good for your ratepayers?

2 MR. WALLACE: Well, and maybe I misunderstood
3 the Chairman's questions. But we can certainly do that
4 and start to provide that type of information for the
5 next meeting, if that's -- and we hope, that's one of
6 the goals, that we are going to get there. But we have
7 not provided that information as of yet.

8 We are, we are happy to. And part of that is,
9 too, that our co-ops are going to have to get some
10 advice. We do not have the, some of the co-ops do not
11 have the expertise in house to evaluate what energy
12 efficiency programs in their service territories will
13 work. We are going to have to do, we are going to have
14 to do some study of this and provide that to the
15 Commission in terms of our overall plans for each co-op
16 and the goal that's realistic.

17 COM. KENNEDY: Well, Madam Chairman,
18 Mr. Wallace, don't you think, since the rules have been
19 in place, you have had plenty of opportunity to do some
20 study and come back and say, hey, this is not going to
21 work for everybody but this is what we can do? Don't
22 you think you have had an opportunity or an ample time
23 to do that?

24 MR. WALLACE: Chairman Mayes, Commissioner
25 Kennedy, I am not sure which rules that you are talking

1 about. We participated in a draft of demand-side
2 management rules that were being proposed by Staff. And
3 I think this was a year or so ago. But I am not sure
4 what rules you are talking about in terms of the energy
5 efficiency portion.

6 COM. KENNEDY: Well, Madam Chairman,
7 Mr. Wallace, I guess I am looking at your response to
8 the Chairman's question of number 4. It says as the
9 case with the REST rules, one set of EE goals is not
10 appropriate for all utilities. And that's the question
11 that I have been talking to you about this morning.

12 MR. WALLACE: Okay. And now I understand your
13 question.

14 Chairman Mayes, Commissioner Kennedy, as with
15 the REST program, we were anticipating that there would
16 be a time period for a utility cooperative to put
17 together a plan to meet an achievable goal. That's the
18 way the REST program works right now. We were assuming
19 that that would carry over and we are willing to do
20 that. But that's, that's going to take time for us to
21 do that.

22 COM. KENNEDY: Okay. Thank you, Madam Chairman.

23 CHMN. MAYES: Sure. And let me just say a
24 couple things here. And I appreciate Commissioner
25 Kennedy's questions and her frustration. And, you know,

1 frankly, to be totally honest, part of the problem is
2 this Commission never did adopt DSM rules. We never did
3 require all of the co-ops to do a DSM program. A couple
4 of the co-ops we know do have DSM programs that are
5 approved by this Commission, but we essentially have
6 done this on a case-by-case basis. So every time a
7 company came in, TEP, APS, some of the co-ops, the
8 Commission would say, hey, you know, you need to do DSM
9 programs.

10 Essentially that's the way we have done it. And
11 I think what we are looking at now is a whole new
12 approach, which is to say all the utilities, including
13 the co-ops, we want to establish rules. I think we are
14 probably moving toward a rulemaking here at the
15 Commission on this issue.

16 And part of the problem is the co-ops are now
17 behind the game, behind the -- you are a little bit
18 behind, because you don't even have in all your entities
19 energy efficiency programs the way -- you don't have the
20 experience with those programs, that's what I am hearing
21 from you, Mr. Wallace, the way APS, TEP and some of the
22 other co-ops do, and UniSource Electric and Southwest
23 Gas and UNS Gas.

24 All of those utilities have had about two years
25 to work through the bugs of actually creating energy

1 efficiency programs. And now what we are looking at
2 doing is not only saying, hey, utility, you have to do
3 energy efficiency programs, but they also have to
4 potentially meet a goal of, let's say, 20 percent by
5 2020, a ramp-up of 1.5 percent and a specific amount, a
6 hard amount of money that ought to be spent on DSM or
7 energy efficiency every year plus a potential
8 performance incentive to encourage the utility to do
9 that.

10 So I guess, with that long, windy preface, let
11 me ask you, Mr. Wallace:

12 You know, it seems to me that, you know, based
13 on some of the comments of some of the participants in
14 this docket, including Western Resource Advocates, there
15 are co-ops in other states that are doing some
16 interesting and innovative things with energy
17 efficiency. In fact, I am looking at the WRA comments.
18 And they note that a co-op called Delta Montrose in
19 Colorado, the Delta Montrose Electric Association in
20 Colorado in 2008 conducted a program in which over
21 90,000 CFLs were distributed to customers, energy
22 efficient lighting. The co-op mailed coupons redeemable
23 for six free Energy Star qualified CFLs at a major
24 retailer and distributed CFLs at various events. Delta
25 Montrose pays about \$2 per CFL and receives a \$1 rebate

1 per CFL from Tri-State G&T. Then, you know, also, since
2 1990 SMUD, which I understand that's a district in
3 California, in collaboration with the Sacramento Tree
4 Foundation, planted more than 400,000 shade trees in the
5 Sacramento area. Plus you have two more entities doing
6 energy efficiency. So it is not like co-ops can't do
7 this, correct?

8 MR. WALLACE: And, Chairman Mayes, if I gave you
9 the impression that we can't do that, that's not the
10 right impression to give. We are committed to doing
11 more. It is just we are going to need time to ramp up
12 our programs.

13 CHMN. MAYES: Okay. Can you ramp up to
14 20 percent by 2020?

15 MR. WALLACE: And, again, that question is a
16 difficult question for me to answer here, sitting here
17 today.

18 CHMN. MAYES: You would certainly make every
19 effort if this Commission required you to do it,
20 wouldn't you?

21 MR. WALLACE: Absolutely.

22 CHMN. MAYES: Okay. I am feeling déjà vu
23 because I remember saying similar things about renewable
24 energy, so it is like wow. But you have, a lot of your
25 co-ops have done a fabulous job at ramping up to meet

1 the renewable energy standard, and I would expect you to
2 be able to do the same thing. And maybe the Commission
3 would want to grant you some latitude on those co-ops
4 where you don't have energy efficiency programs yet.

5 Let me ask you to respond to the idea of
6 Commissioner Kennedy asked you about, you know, the
7 20 percent and the yearly target of 1.5 percent. Can
8 you respond, give us your thoughts on, you know, funding
9 this program as a percentage, funding energy efficiency
10 as a percentage of your utility's annual revenues, the
11 Minnesota example?

12 MR. WALLACE: I really can't offer you, Chairman
13 Mayes, I really can't offer you any insight on that
14 until we would develop our plan. Our goals and then our
15 budget would follow and then we would have a good idea.
16 I know --

17 CHMN. MAYES: Well, actually I think it is kind
18 of that you got it reversed a little bit. We are trying
19 to set policy here and we need some answers, quite
20 frankly, from the co-ops about these ideas. If we are
21 going to set rules, we need to know what the co-ops
22 think about these ideas. That's what this, the whole
23 purpose of this is. So I am going to give you until the
24 next workshop to provide some insight into your thinking
25 on this. Would that be okay?

1 MR. WALLACE: And that would be okay, and
2 especially for the co-ops that have the existing
3 programs and so they know what they are spending now.
4 So it is going to be a much easier exercise, I think,
5 for them to try and determine. They know what they are
6 spending now. They know what the one and a half percent
7 looks like obviously in their annual sales. And they
8 have some experience and can provide you that
9 information. The other co-ops who are starting from
10 scratch, we can give you a number, I just don't know how
11 good that number will be in terms of their, you know,
12 their actually being able to achieve the programs with
13 that amount of money.

14 CHMN. MAYES: You can certainly give us your
15 thoughts about the concept of both a target, a funding
16 mechanism that's based on a percentage of annual
17 revenues, as they do in Minnesota, which provides timely
18 recovery to the utilities of the costs of energy
19 efficiency, and then also the idea of a performance
20 incentive, although you have already kind of commented
21 on that, which is really, is really not that applicable
22 to co-ops because you are not, you are not seeking to
23 make a profit.

24 MR. WALLACE: Chairman Mayes, that's correct.
25 And we can certainly offer our thoughts of the policy

1 perspective of the percentage of revenues in the
2 Minnesota situation.

3 CHMN. MAYES: And then you will do the same
4 thing on the concept of decoupling?

5 MR. WALLACE: Chairman Mayes, that's correct.

6 CHMN. MAYES: Okay. And then finally, and this
7 is for everybody in the room, I would like everybody to
8 think about whether this Commission should adopt a
9 policy statement akin to what has happened in Colorado
10 in which the Commission would state to our utilities
11 that any new load growth should be met through energy
12 efficiency or renewable energy. And, if it can't be,
13 utilities ought to explain to the Commission why. So if
14 you can think about that issue and whether the
15 Commission should address it in this proceeding or
16 separately through a policy statement.

17 Mr. Neville, good morning.

18 MR. NEVILLE: Good morning. Thank you for
19 having me here, Chairman Mayes. Thank you for inviting
20 me Paul Newman. I am glad to meet the others of you
21 here.

22 I understand I am under a three-minute thing.

23 CHMN. MAYES: Not really.

24 MR. NEVILLE: Well, I will send my complete
25 statement but I will kind of jump in here. I am

1 president of Sustainable Arizona, and I am representing
2 that group. We are a 501(C)(3) nonprofit dedicated to
3 improving quality of life in Arizona through the
4 achievement of sustainable development. That's the
5 process I have been working on for 20 plus years now in
6 other states, Minnesota being one of them.

7 And I am also representing Coconino County
8 Sustainable Economic Development Initiative. And we are
9 focused on working with the schools, our resources in
10 northern Arizona to increase sustainable economic
11 development. And what you are talking about here in
12 energy efficiency is exactly the kinds of things we are
13 working on right at the moment. So I am going to leap
14 around real quickly.

15 Some things were brought up here about the
16 cooperatives and how to deal with those things. And
17 there are a lot of very simple answers, as you brought
18 up, being things that have been conducted for many
19 years.

20 I did leave some materials for each one of you.
21 There is a one-page handout there, I think, from
22 Michigan on a process where, in fact I did this myself
23 back in 1980, where I had, I worked with my utility.
24 They came into my home. They did an audit on my home.
25 And I insulated my home, did all sorts of energy

1 improvements on the property, and paid for it through my
2 utility bill out of the savings that I made. It is very
3 similar to a performance contract. And it worked very,
4 very well in 1980 and people were running all over
5 Minnesota doing that very thing. I put solar panels on
6 my house and took advantage of the tax credits.

7 I am here to say very quickly that we support
8 the findings, the recommendation of the Western
9 Governors' Association. We support the SWEEP
10 presentations. I read through that. Those look really
11 good to me. I like the Western Resource Advocates'
12 recommendations as well. We think that they could be
13 more aggressive. We think the 20 percent is a good
14 starting point just like we think the renewable energy
15 standard is a good starting point. We know that in
16 Arizona we could far exceed that if we just use a little
17 will and move ahead with this.

18 I should say I am speaking as a business
19 consultant. What I have done for most of my career is
20 help companies make money doing exactly the kinds of
21 things we are talking about here. So this is not what I
22 view as a difficulty or a burden upon utilities. This
23 is an opportunity. And I have had the opportunity to
24 talk to some of the leaders of the utilities who agree,
25 who are very excited about the opportunities in doing

1 this. So I am also very encouraged that you are taking
2 a holistic approach to this. And by that I mean not
3 segregating these issues apart from our overarching
4 economic and social issues that we are facing.

5 I am highly motivated because of the issue of
6 climate change, the fact that Arizona has warmed two and
7 a half degrees in the last five years, and that peak oil
8 the impact of peak oil will make this little hiccup
9 economically seem like nothing. So we need to move
10 ahead very quickly with this type of thing.

11 And as you have said, Chairman Mayes, the
12 cheapest energy that we get is that which we do not use.
13 I want to read a little quote. I am skipping around
14 here but I want to move quickly. This reflects on
15 something that you said about a kilowatt saved is a
16 kilowatt earned, which is a guiding principle behind
17 distributed -- demand-side management. This quote says
18 the sixth principle in the cornerstone of our policy is
19 to reduce demand through conservation. Conservation is
20 the quickest, cheapest, and most practical source of
21 energy.

22 Now, that was stated by President Carter in
23 1977. And it is something that us old guys draw out all
24 the time. We remember this. In 1976 I bought what I
25 knew would be my last gasoline powered vehicle because

1 we couldn't be so stupid to keep running our cars by
2 electricity. Now -- I mean by gas. We needed to move
3 to something else.

4 Now, Carter said that we could grow our economy
5 and at the same time improve our energy efficiency. But
6 we underestimated how well we could do it. Between '79
7 and '82, we decreased our energy use every single year
8 during that time period. And it took until 1988 for us
9 to return to the level of energy we used in 1979. And
10 during those nine years, the gross domestic product of
11 the US grew by 30 percent. So, again, this is not a
12 hardship we are talking about here.

13 We have, we have all -- the Department of Energy
14 estimates that the typical US household uses 11,000
15 kilowatt hours per year at an average cost of \$1,000 to
16 \$1200 a year in expenditures. If we cut energy use per
17 home by 30 percent, which is a very, very easy thing to
18 do, that would save each family 3-, \$400 a year. That
19 sounds like an economic stimulus package in and of
20 itself.

21 My home in Sedona uses 40 percent less energy
22 than the typical household. It costs me the same to
23 build as the cheapest bid I got from a conventional
24 builder.

25 This is -- I want to give you another example.

1 One of the companies I used to work for for many years
2 in Minnesota, 3M Company, since 1973, in the US
3 operations alone, they have increased their energy
4 efficiency by 80 percent. Since 1998, their
5 international operations have become 41 percent more
6 energy efficiency. And in the two years between 2005
7 and 2007 they improved their energy efficiency by
8 18 percent in just those two years. And yet, during the
9 time frame between the mid '90s to today, their business
10 has grown from a \$16 billion business to a \$25 billion
11 business. This is just basic common sense. So I want
12 to highlight a couple things we are doing in northern
13 Arizona.

14 In Coconino County we formed an energy
15 efficiency and renewables team as part of setting the
16 sustainable economic development initiative. And one of
17 the latest projects is something called ZEN Homes. This
18 is not a Sedona thing, so... This is an acronym.

19 COM. NEWMAN: And, also, SEDI is another --

20 MR. NEVILLE: -- acronym as well. Yes, I know.
21 But it is with a D, not a T. So at any rate, ZEN stands
22 for zero emission neighborhoods, zero emission
23 neighborhoods. And the idea here is to, through a
24 combination of energy efficiencies, using the stimulus
25 money, the ERA money, to kick off that program. And

1 renewables, the homes in targeted neighborhoods are
2 going to reduce their energy use to zero emission level.
3 And that's our goal for this.

4 Now, it is going to take some doing. But we
5 have that as our goal. I gave you a draft copy of that
6 program.

7 Let's see. We have also, we have also started
8 working on things like electrifying vehicles. And I
9 have spoken to a couple of you about this. And this is
10 an energy efficiency program as well.

11 We are very sensitive to greenhouse gas
12 emissions up on the Colorado Plateau where we can see
13 our snow cover diminishing every single year, and that's
14 our source of water. So the Verde Sustainable Energy
15 Company is working again with municipalities and transit
16 people to electrify and convert to hybrid plug-in
17 electric, the bus fleets and the municipal fleets to
18 reduce, again, their energy use by quite a bit. And we
19 are hoping to engage the utilities in this as well. And
20 I have talked to a couple of you about the benefits of
21 doing that.

22 Part of what SEDI is trying to do, and this is
23 where you come in, and it seems this is high on your
24 docket, is that we are trying to identify and promote
25 enhancements to public policy and regulations that

1 support effective weatherization and energy retrofitted
2 programs and work with public, private and nonprofit
3 entities to implement them. Similarly we will work to
4 remove public policy and regulatory impediments to
5 efficient and effective implementation of such programs.
6 And it sounds like you are right on being with that.

7 In response to how to get customers onto the
8 program, I have made a proposal to APS to continue a
9 program we piloted with them over the past couple of
10 years called The Renewable Energy Awareness Days. And
11 that's where we come to communities with an exhibit and
12 experts and demonstrations on renewable energies and
13 energy efficiency programs. And we did this program in
14 Flagstaff, Sedona and Prescott. We had hundreds of
15 people come through, and they walked away with some
16 really good information. So we are looking forward to
17 some very aggressive things.

18 I have more on the program for incentives from
19 the midwest. You may already have this. This is a
20 program Wisconsin is doing that engages the utilities in
21 kind of a performance contract type of thing that I
22 could also send you.

23 Thank you.

24 CHMN. MAYES: Thank you, Mr. Neville. So do you
25 support the idea of a performance incentive for

1 utilities? Is that something you think is necessary,
2 not necessary? What are your thoughts on that?

3 MR. NEVILLE: Well, I am very realistic about
4 our needs, because one of the critical components is
5 that smart grid concept. And the utilities need money,
6 they need money for that and we have to invest in that,
7 because when we start bringing in renewables on line, we
8 are going to have this very strange set of energy
9 resources out there that will fluctuate quite a bit. So
10 we do have to invest in that.

11 So yes, I am -- I would like to encourage some
12 sort of incentives. I think, I felt strongly for a long
13 time that decoupling was a real important way to go.
14 And as I said to you and I said to Commissioner Newman,
15 that I have never wanted to own a kilowatt hour in my
16 life, I have only wanted the lights to come on, my
17 business to operate, et cetera.

18 And, for instance, I have been in my house for
19 five years; I know what it cost to run my house. So
20 does APS. So I will pay them that. That's it, we are
21 done. And if they can figure out how to bring that
22 power to my house without spending any money themselves,
23 more power to them. I will continue to pay them. And
24 so I like decoupling in that regard.

25 However, I did read the Western Resource's

1 report. And I thought, hm, now, this is interesting, I
2 hadn't thought of some of these issues. So there may be
3 a combination of things that you want to look at.

4 From a cooperative point of view, I am a member
5 of an old co-op in Minnesota. And we cooperate. It is
6 not a, it is not a bunch of -- we work together and
7 figure out how to keep our costs down and how to keep
8 our efficiencies up. And there is amazing opportunity
9 there for customer -- it doesn't have to be a wash, an
10 out-of-the-pocket wash. It has to be a lifecycle wash,
11 actually a lifecycle benefit. So if somebody is
12 spending \$3,000 on bringing in solar but they are going
13 to eliminate 30 or 40 percent of their ongoing energy
14 bill, that's a benefit. That's not a cost. So that's
15 my recommendation there.

16 CHMN. MAYES: Thank you.

17 Commissioner Newman.

18 COM. NEWMAN: Yes. I will take a second shot at
19 Commissioner Mayes' question. I don't know if you heard
20 her.

21 I think standards sort of work -- standards to
22 work towards in terms of -- we will start with the
23 cooperative first. I think her question was: Do you
24 support a standard, goal for the utilities to meet?

25 MR. NEVILLE: Yes.

1 COM. NEWMAN: Yes.

2 MR. NEVILLE: I do, sure, high, high standard.
3 And the thing, this comes from my background when I was
4 working with some big major multinationals, and they
5 were having problems with the Clean Air Act because they
6 were being micromanaged by bureaucrats on how to meet
7 the standards, the idea is to set the standards and let
8 the creativity of the companies figure out how to meet
9 them.

10 COM. NEWMAN: That seems to make sense to me,
11 too. Now, let's touch on, you are providing -- Coconino
12 County is APS?

13 MR. NEVILLE: Yes, and UniSource for gas, yes.

14 COM. NEWMAN: And UniSource for gas. Tell me
15 about some of your ideas on how to work with APS in
16 northern Arizona, what has been done so far, what, what
17 the Commission might be able to do to help the citizens
18 and APS get to better standards of energy efficiency in
19 northern Arizona. Let's regionalize this for right now.

20 MR. NEVILLE: Yes, I notice a couple things,
21 both on APS' part and UniSource's part. UniSource, for
22 instance, has a representative on our energy efficiency
23 and renewables team. So someone is sitting on the team
24 from UniSource and helping us with that, because the
25 major energy expended in the wintertime up in northern

1 Arizona is gas, natural gas.

2 We are assuming that APS will have somebody on
3 that team, too. We have already talked to their
4 representative up there. One of the things I have
5 noticed is the change in their website at APS. APS has
6 become very energy efficiency conscious on their
7 website. They have this basketball player and little
8 link that you can pop into.

9 COM. NEWMAN: Pretty famous basketball player
10 last I heard.

11 MR. NEVILLE: Okay. That's good. And I was
12 interested in the content myself. And I found that was
13 very, very useful. And they have really ramped that up
14 quite a bit. It reminds me of the things I saw back in
15 the 1980s. And it was good to see that going.

16 And I am getting feedback from them as I talk to
17 them all the time that they are very, very serious about
18 this and moving forward. So whatever you are doing, it
19 is working.

20 COM. NEWMAN: Okay. With regard to your
21 council, because I am very interested in that, too, one
22 of my utopian goals as I sit here in the first couple
23 months of being on the Commission is to have councils
24 like yours in every part of Arizona, southern Arizona --

25 MR. NEVILLE: Good idea.

1 COM. NEWMAN: -- eastern Arizona, western
2 Arizona and northern Arizona and central. It seems to
3 make sense to me.

4 Tell me a little bit about the history of the
5 council and how that can help promote energy efficiency
6 and other goals of the Commission, but particularly
7 energy efficiency because we are here in this workshop.

8 MR. NEVILLE: Well, we look at things again,
9 like I said, holistically. And the Sustainable Economic
10 Development Initiative, and I assume that's the one you
11 are talking about, developed as a collaborative between
12 NAU and the Coconino County, the Board of Supervisors.
13 And a couple of them got together and said this would be
14 a good idea, let's get going on this. And they called
15 around and they got various leaders.

16 And you would be very impressed with the people
17 on that committee. We have a broad range of -- we have,
18 we have the utilities on the committee. We have the
19 colleges and universities. We have the Flagstaff
20 Unified School District. We have representatives from
21 the major city councils and mayors on the committee. We
22 have small businesses, larger businesses represented on
23 the committee as well as on our board.

24 And what we look for is an organic approach to
25 growing business in northern Arizona, that is, to look

1 at our resources, and those are natural resources, human
2 resources, intellectual capital as well, and see what do
3 we have in place that we can grow and improve on so that
4 we can improve the quality of life across the region.

5 And we need -- we have a number of teams that we
6 meet on. I am co-chair right now of the sustainable
7 tourism team, which, again, is not an oxymoron. It is a
8 vision. And we are working on all sorts of issues
9 there. We have started up with a new SEDI business
10 website, which will enable partners to come in and grow
11 their businesses and market their businesses after they
12 achieve a certain standard of sustainable practices.
13 And we have created check lists and guidance for them to
14 do that.

15 We have a new initiative called the Green
16 Triangle, which is a combination of the school systems
17 and businesses and consultants working together to help
18 improve green collar jobs and also infuse the concepts
19 of sustainability into the curriculum so that energy
20 efficiency and renewables are going to be common sense
21 to the students. Systems thinking is going to be common
22 sense based on looking at the natural systems around us.

23 Now, as far as southern Arizona is concerned,
24 there is a Sustainable Tucson down there. And
25 Sustainable Tucson started as a combination of some

1 environmentalists and the Arizona Association of
2 Environmental Educators. Now they and the National
3 Association of Environmental Educators are pushing this
4 as well. So there is something going on. I just spoke
5 down at Tucson at the sustainable living and energy
6 presentation down there and they were packed with
7 people. So they are moving seriously in terms of energy
8 efficiency as well.

9 COM. NEWMAN: I guess that's it for now. I
10 invite you to participate in these workshops --

11 MR. NEVILLE: Thank you.

12 COM. NEWMAN: -- and on a collaborative basis
13 continue communications with the Commissioners. Your
14 testimony is very well taken.

15 One of the things, like I said, my utopia vision
16 was to have groups like yours working with private
17 industry, the government and the school systems, the
18 whole links, and to be working with the utility as well
19 as partners to try to get to energy efficiency regional
20 collaborations.

21 And I think that fits with setting goals for
22 energy efficiency as well. So I look forward to future
23 collaborations with you. And thank you for taking the
24 time to testify today.

25 MR. NEVILLE: Thank you. Thank you very much.

1 Just one quick note. It is not as utopian.
2 Renewable Awareness Days is a partnership between the
3 utilities in the area, the local civic groups in the
4 area. We hosted it at the public library, and we
5 present local businesses as resources. So it is in and
6 of itself a collaboration. And we leave behind a
7 sustainable resource center at the library for citizens
8 to engage in. So that's a tool right there.

9 COM. NEWMAN: Well, it would be very helpful for
10 me personally, and I am sure other members of the
11 Commission, if you would help us try to grow your vision
12 to other areas of Arizona.

13 MR. WALLACE: Gladly.

14 COM. NEWMAN: Thank you.

15 MR. NEVILLE: Gladly.

16 CHMN. MAYES: Thank you, Mr. Neville.

17 MR. NEVILLE: Thank you for allowing me to
18 speak.

19 CHMN. MAYES: Say hello to everybody in Sedona
20 for me.

21 MR. NEVILLE: Will do.

22 CHMN. MAYES: Go to Michael Curtis, Mohave and
23 Navopache. And, for the record, Dennis Hughes is with
24 them, too, Navopache.

25 MR. CURTIS: Madam Chairman and members of the

1 Commission, due to the phenomenal testimony of
2 Mr. Wallace and -- I will not dwell on Mohave and
3 Navopache. Incidentally, I am here actually -- I would
4 like to correct the record. My name is Michael Curtis.
5 I am the executive secretary of the Arizona Municipal
6 Power Users Association, a group of approximately 22 to
7 23 electric systems of cities and towns, special
8 districts, tribal utility authorities, and distribution
9 and rural electric cooperatives.

10 What I wanted to do today was first of all hand
11 out to you, and I will make a formal filing of this, the
12 remarks of the American Public Power Association, of
13 which we are a member, one of 2000 members that was
14 responding to the FERC staff discussion on elements of a
15 national action plan on demand response. That paper
16 goes into discussion from the public power perspective,
17 which is a nonprofit perspective of such items as smart
18 metering, smart grids, demand-side management, and we
19 think will be of help for your Staff to review.

20 One of the items which I wanted to bring to your
21 attention today is that there really have been no
22 studies done by the Commission of the economic model of
23 the nonprofit. We say the nonprofit because cities and
24 towns are nonprofit, and cooperatives are nonprofit.

25 We don't have profits. We have what are called

1 margins. If you are positive margins, that means you
2 have not lost money. If you have negative margins, you
3 are in trouble.

4 What we wanted to point out is that we think
5 that embracing a goal of energy efficiency is laudable.
6 But we believe that individual entities need to be
7 judged perhaps jurisdictional by your Staff on whether
8 or not they are using the correct techniques and
9 procedures to attain the goal. If they attain the goal
10 or exceed the goal, the Staff review is probably pretty
11 simple. If there is an inability to attain the goal,
12 then that becomes an effort of the Staff to recommend to
13 the Commission whether or not they believe that this
14 particular entity is doing what it needs to do.

15 And we mention that because of the diversity in
16 location of all of our members, ranging from Duncan to
17 Williams to Yuma to Bullhead City to Pinetop, Show Low,
18 and throughout the state. They all have different
19 characteristics, different weather characteristics,
20 different economic characteristics.

21 We need to keep in mind that the reason why some
22 of our entities are public power is that there was no
23 money in it. If there had been money in the power
24 business in the rural areas, the investor owned
25 utilities would have been there. But there wasn't any

1 money there. Because there was no money there, we had
2 to form these nonprofit entities, whether it was cities
3 and towns, or whether it was cooperatives.

4 So we are starting with the fact that, while in
5 some areas money, slash, growth has caught up, there are
6 unique characteristics in these various areas. Classic
7 example, it took 50 years, for instance, for Navopache
8 to have 50 megawatts. It took Mohave Electric some 50
9 years to get 90 megawatts. However, it only took 10
10 years for Navopache Electric to get 100 megawatts. And
11 it only took 15 to 20 years for Mohave Electric to get
12 to be 250 megawatts.

13 The implications of that kind of growth
14 economically are staggering. Can you handle both
15 simultaneously? Can you handle extraordinary demands of
16 growth, economic demands of growth, and at the same time
17 interface the efficiencies and the concept of
18 conservation? That has been a delicate task which our
19 members, cities and towns as well as cooperatives, are
20 using right now, this economic circumstance, to regroup
21 and to focus on conservation, renewables and efficiency.

22 The question was asked whether or not we can
23 accept or endorse a one and a half percent goal and
24 objective. As long as for our cities and towns and some
25 of our districts, as long as they are entitled to be

1 judged on the merits of their effort and on the way in
2 which they are honestly and sincerely trying to achieve
3 the one and a half percent, then there certainly is no
4 objection in embracing it.

5 I mean you have goals for your children. You
6 have goals for your business. You don't always achieve
7 them. But what you do, you demand in a sense a fairness
8 that you be judged on the merits of your work and the
9 merits of your effort. It is one thing to have the goal
10 and objective. It is another thing to be judged
11 unfairly in spite of what might be a Herculean effort to
12 do things.

13 So we embrace both for the nonprofit city/town
14 as well as for cooperatives that there be a sincere
15 study of the economic model. The economic model of
16 incentives and decoupling, we pointed out to you in
17 prior filings, Colorado did a marvelous job. Scott
18 Hempling, consultant to the commission, did a marvelous
19 job in Colorado. However, Colorado cooperatives are
20 nonjurisdictional.

21 But getting into Colorado, because of the Delta
22 Montrose situation, the last meeting you had here Jeff
23 Schlegel made a presentation on behalf of SWEEP. And
24 David Berry has commented on behalf of WRA. Our
25 nonprofit people felt that probably, I don't want to

1 compliment them too much, 60, 70, 75 -- I don't know,
2 David -- maybe almost 80 percent of what SWEEP and WRA
3 were talking about in terms of efficiencies were goals
4 and objectives which our nonprofits would like to strive
5 towards and would like to perhaps work on developing
6 ideas and concepts that are consistent with the economic
7 model of nonprofits so that we can attain some of those
8 goals and objectives.

9 We have to also take a look at, in some of our
10 areas, turnover. At the same time that we are talking
11 about efficiencies, we have to recognize that in some of
12 our remote areas we have turnovers of perhaps 30 and
13 40 percent in customers. Now, you want to start talking
14 about the expense of installing smart meters and then
15 you are going to have a 30 or 40 percent turnover, you
16 are getting into some real issues that we think are
17 deserving of studying. Not to reject but to look at the
18 study.

19 There is also an effort being made to define
20 smart meters. There are two type of smart meters. And
21 the paper we presented to you gets into the fact you
22 have got to be careful of what technology we are
23 committing to.

24 So I think the idea we want to present on behalf
25 of the nonprofits and the municipal power people

1 nonjurisdictional, we embrace this process, we embrace
2 the opportunity to participate. We, I believe, will be
3 supportive of goals and objectives. We will ask that
4 there be a particular attention paid on the individual
5 entities and that, and that when the time comes, in the
6 words of some -- Webb, are you here -- Grantland Rice, a
7 sports writer said when the time comes the mark against
8 your name, it is not whether you won or lost, it is how
9 you played the game, that's what we want to be judged
10 on, I think, how did we play the game. If we played it
11 sincerely, give us some credit, tell us to do more, pray
12 more. Don't penalize us, because we are the customer.

13 And as the gentleman who just preceded me said,
14 it is a collaborative and the cooperative -- you may not
15 realize this, but in some of our cooperative members, in
16 the last 10 to 15 years, the boards of directors, they
17 are not Methuselahs that have been there a hundred
18 years. They have turned over anywhere from 30 to
19 50 percent.

20 So we have ongoing education, ongoing reach-out.
21 We want to embrace the program. We want to work with
22 people like WRA and SWEEP. We look forward to working
23 with the Commission. But we are not in favor of having
24 our municipal stimulus funds that are granted by the
25 United States brought into the hands of Chairman Mayes,

1 Commissioner Newman in an effort to bring us into
2 jurisdiction.

3 That was a little bit of a joke about
4 Commissioner Newman's recent letter to Representative
5 Waxman, but...

6 CHMN. MAYES: Okay. Well, Mr. Curtis, here is
7 the problem. Picking up on your analogy, four out the
8 six cooperatives are not even in the game when it comes
9 to energy efficiency. And I suspect if we had not
10 passed the renewable energy standard which covers
11 cooperatives and requires cooperatives to meet the RES
12 standards, you wouldn't be in the game on renewable
13 energy either. So, you know, I think that you could
14 make that argument if you were in the game, if you had
15 skin in the game. But you don't.

16 Only two of your cooperatives have energy
17 efficiency programs. And I would like Mr. Hughes to
18 come forward and talk to us about what they are doing at
19 Navopache. Navopache has always been pretty aggressive
20 when it comes to renewables or energy efficiency.

21 And I appreciate what you say to some degree. I
22 mean we have given the co-ops, we gave the co-ops a
23 great deal of latitude in the early years of meeting the
24 renewable energy standard. And I am sure you were
25 appreciative of that. But at some point you have to, it

1 seems to me everybody has to, come under the same
2 umbrella.

3 So are you suggesting to me that somehow
4 magically four of the six co-ops are going to do what
5 all the other electric utilities will be required to do
6 going forward?

7 MR. CURTIS: Madam Chairman, members of the
8 Commission, I can't speak personally for a cooperative
9 individual other than Navopache, but I will tell --

10 CHMN. MAYES: What about Mohave? You represent
11 Mohave.

12 MR. CURTIS: I meant to correct myself and say
13 Mohave has a tree planting program. It also hands out
14 and distributes the light bulbs. And it also is a
15 member of the AEPCO program. And the demands for
16 staffing and the significant expenses of developing and
17 designing programs has been significant. But Mohave has
18 made an effort and is making an effort on working
19 through your Staff, Mr. Ray Williamson of your Staff --
20 not here -- to be filing its own program, because as a
21 partial requirements customer of AEPCO it is collecting
22 monies which go to AEPCO for the AEPCO program and
23 Mohave wants to take and redirect some of those monies
24 into its own individualized program so that it can begin
25 investing those kinds of money.

1 So it has not been retarded or laggardly in
2 trying to progress on these issues. But at the same
3 time, I also mention to you in 15 years to go from 90
4 megawatts to 250 megawatts has placed a lot of demands.
5 It does appreciate that the cheapest kilowatt is the
6 kilowatt you don't build.

7 CHMN. MAYES: Then why aren't you doing more of
8 it? I mean since the co-ops essentially are trying to
9 drive benefits for their member owned customers, why
10 would you not be doing, why would you not have already
11 maximized the amount of energy, the low hanging fruit
12 energy efficiency out there and available to all of the
13 co-ops?

14 MR. CURTIS: Madam Chairman, Mohave Electric,
15 for instance, is the other one that I can speak of, and
16 it has participated in the solar concept and has
17 participated in trying to -- energy efficiency in terms
18 of home building. But it has just perhaps not been
19 publicly been brought to your attention the nature and
20 extent of what it has done as it is gearing up.

21 Right now it is attempting to gear up as much as
22 it can to embrace these programs, as I said on behalf of
23 AMPUA, but also because of the cooperative members we
24 have. We don't know of any entity that is not embracing
25 the goal and objective of trying to achieve these, for

1 instance, the one and a half percent if that's what you
2 set. There will be no pushback on trying to achieve
3 that. There may be an inability which will have to be
4 demonstrated as to why they can't do it but there will
5 not be any pushback, hell, no, we won't go. That's not
6 going to happen. They are members, are the customers,
7 are the owners. They are all in it together.

8 Now, the one issue that does come up when you do
9 get into incentivizing, you talked about dedicating a
10 portion of margins on revenues, I mean you have to
11 distinguish between dedicating a percentage of revenues
12 before costs, after costs, but if you are talking about
13 devoting a percentage of margins, that might be
14 something to explore, because margins are in effect the
15 after operational expenses and it is not really then a
16 direct subsidy of you want your \$15,000 contribution for
17 your \$30,000 effort to get your 30 percent rate and you
18 want Commissioner Stump and Kennedy and Newman to kick
19 in through their rates in order to help fund you get
20 that. Although there may be a reciprocal benefit to
21 them in the long run, in the immediate run there is not
22 that there. But if you were to take that money perhaps
23 out of margins, that means there would not be a return
24 of capital. Because you have mentioned before in some
25 of your cases with APS about whether they should cut

1 their dividends. Well, margins are accumulated in a
2 cooperative model where they repay capital, patronage
3 capital because, at the end of the day after the members
4 put in all their money and there is a positive margin,
5 it ultimately gets returned back. That may be a concept
6 that could be looked at.

7 We are willing to explore those things. We are
8 not, we are not fighting. But we have -- when you have
9 only one, or when you have only four or five customers,
10 two jackrabbits and perhaps a horse's ass or jackass per
11 mile of line, it gets difficult to step up and play the
12 same game that the private investor owned utilities are
13 playing.

14 Thank you.

15 CHMN. MAYES: Okay. Thank you, Mr. Curtis.

16 Commissioner Newman.

17 COM. NEWMAN: Yes, Michael, well, we will talk
18 about the letter I wrote to Congressman Waxman off the
19 line. It had nothing to do with municipal funds.

20 MR. CURTIS: I apologize for the insensitive
21 joke.

22 COM. NEWMAN: No, it was, it was a good joke.
23 But it just inaccurate.

24 MR. CURTIS: Okay.

25 COM. NEWMAN: I just want to ask, bottom line,

1 you said you agreed with 80 percent of SWEEP's and
2 Western Resource's filing in this case, their judgment
3 that we need to all be on the bus with regard to energy
4 efficiency. What are the 20 percent that you disagree
5 with?

6 MR. CURTIS: Madam Chairman, Commissioner
7 Newman, I am not really sure because we were so
8 overwhelmed with the extent of our agreement that we
9 have actually communicated through, I believe,
10 Mr. Wallace at Grand Canyon, trying to reach out to
11 SWEEP and WRA to see whether or not we can't refine the
12 areas of where we are in agreement or disagreement.
13 Because it would be wonderful to be able to come back
14 before this Commission on behalf of individual entities
15 and even the municipals and to be able to say we have a
16 program that we can all embrace together, because if we
17 did that, you would be very impressed. So we are going
18 to, we are pursuing that.

19 COM. NEWMAN: So the 20 percent is nebulous at
20 best you are in agreement --

21 MR. CURTIS: Madam Chairman --

22 COM. NEWMAN: -- with their statements?

23 MR. CURTIS: Madam Chairman, Commissioner
24 Newman, I have never wanted to be in complete agreement
25 with Mr. Berry. I have known him too many years. And

1 Mr. Schlegel is so slick and articulate and I am
2 reluctant to say I embrace him 100 percent. I mean I am
3 doing well at 80, I thought, and we are reaching out. I
4 want you to know we are reaching out to them because of
5 the uniqueness of our economic model.

6 COM. NEWMAN: And also the economic situations
7 that we are all in as a country, as a state.

8 I think when I read Mr. Schlegel's filings, I
9 was, you know, it is, like you said, you are not
10 100 percent in agreement with any human being on the
11 planet, but it seemed that they had over 90 percent
12 rationality in what they were talking about.

13 And whether those -- now, that leads to my next
14 question, which is trying to establish some sort of goal
15 to work towards. And I tried to get the previous
16 witness representing co-ops pinned down on this. And he
17 was, he had learned some adaptations from jackrabbits in
18 rural Arizona and wasn't quite ready to commit. I don't
19 mean it disparaging at all. This was my own joke.

20 But are you ready to commit to a 20 percent goal
21 to public power? And public power of course we don't
22 have control over, but the rural co-ops from your
23 perspective, are you willing to sit down with Mr.
24 Schlegel and the Commission and others and commit to a
25 goal something like 20 percent.

1 MR. CURTIS: Madam Chairman, Commissioner
2 Newman, don't make it a trap.

3 COM. NEWMAN: I am not making a trap.

4 MR. CURTIS: No, no, no. I -- the bottom, the
5 bottom row up there, Mr. Crockett and I have appeared.
6 And over the history there have been times when your
7 offer, trust me, trust me, commit to this and don't
8 worry, we will take care of you, well, yes, we saw how
9 some of this got taken care of in the late '70s and
10 early '80s. There were some horrible things done to the
11 nonprofits, horrible things done economically. So when
12 I mention to you that I believe from our perspective
13 that we could commit or that the cooperative and
14 nonprofit might commit to the one and a half percent, it
15 is, it is with that idea that subsequently we would be
16 judged not on achieving the one and a half percent but
17 be judged on the entirety of the effort that was made.

18 COM. NEWMAN: I appreciate that.

19 MR. CURTIS: Just don't make it a trap and ask
20 the nonprofits, I mean cities, towns, the Duncans, the
21 Williams, Saffords and Thatchers, you can ask people
22 like that to embrace what appears to be a realistic
23 goal, but in unique circumstances, it may be able to be
24 exceeded or it may not be able to be met. But you will
25 have to judge those on individual performance. It is

1 not just a meet the bar or it is off with your head.

2 COM. NEWMAN: I actually thought your
3 preliminary comments about dealing with the vagaries of
4 individual communities makes sense.

5 MR. CURTIS: To that extent, technology and the
6 rest of the industry is going to tell you whether or not
7 we, you know, those become realistic.

8 COM. NEWMAN: Okay. So I won't make you go on
9 the record about that and I appreciate your sticking by
10 your preliminary statement. I just thought I would ask
11 you the question. Thank you.

12 MR. CURTIS: Madam Chairman, Commissioner
13 Newman, I always appreciate the question.

14 CHMN. MAYES: Mr. Curtis, real quickly, we have
15 never sent any utility to the guillotine, have we, for
16 not meeting the renewable energy standard?

17 MR. CURTIS: Madam Chairman, not yet. And you
18 have indicated --

19 CHMN. MAYES: Do you have any indication that
20 this Commission intends to send anybody to the
21 guillotine for not meeting the renewable energy
22 standard?

23 MR. CURTIS: Madam Chairman, the frequency with
24 which the Chair and other Commissioners have commented
25 that they are willing to recognize the individual

1 characteristics of different electric entities, even if
2 they were to judge without jurisdiction municipalities
3 and judging cooperatives, that they are willing to look
4 at their own, the characteristics of the own entity is a
5 sign of remarkable good faith and engenders a great deal
6 of trust. But that's when the father said to the kid
7 jump from the table, I will catch you.

8 CHMN. MAYES: Okay. Well, I appreciate that
9 acknowledgment.

10 We will go to Southwest Gas now. And, again,
11 just a quick admonition, we are going to have to break
12 at 11:30. And then we will come back at 1:30, I think.
13 And I think we can go all afternoon if we need to. And
14 I intend to be here, although I do have to get up to
15 Prescott. So I may be leaving around 4:00. Nothing
16 stops me from getting to Prescott.

17 MR. BROWN: Good late morning, Chairman Mayes,
18 Commissioners. Justin Lee Brown on behalf of Southwest
19 Gas.

20 I wanted to start out by just expressing, you
21 know, our excitement about participating in this docket.
22 As Chairman Mayes knows, you know, we have requested
23 decoupling in the last two rate cases, and the last case
24 tried to demonstrate that, you know, we truly believe
25 that our customer benefits associated with that. So we

1 are definitely excited in working with the Commission on
2 working to promote energy efficiency in Arizona as well
3 as the rest of the parties.

4 Before I get into Southwest Gas's specific
5 comments, I wanted to reflect a little bit about, I
6 think, what I learned. And it sounds like maybe in
7 regard to Ernest Johnson's comments at the beginning of
8 today's workshop, as we listened to the initial workshop
9 there was a lot of focus on electric utilities and, as I
10 was listening to the issues that they are facing and the
11 concerns of the Commission, that there is one thing.
12 What was clear to me is that there clearly is a
13 difference between gas utilities and electric utilities
14 and the issues that we face and that, you know, one size
15 does not fit all in that sense.

16 And that comment is not intended to imply that
17 we are not willing to work with the electric utilities,
18 there is not overlap of the issues, because I think
19 there is to a certain degree. But when we look at the
20 cost of supply side resources or the different
21 fundamental uses of the commodity itself and maybe the
22 potential for conservation and energy efficiency
23 opportunities with regard to electric and gas, they are
24 just different.

25 And that's, with regard to this chart that we

1 prepared, it is -- one thing we wanted to point out is,
2 since our 1986 rate case, we had an average use per
3 customer of 556 therms. In our rate case that we just
4 finished, the average use was 332. That's a significant
5 decline of about 40 percent over that 20-year period.
6 And I think if every utility was facing this type of
7 decline in customer usage, we wouldn't even be having
8 the workshops because I think energy concerns wouldn't
9 be the main topic because they are going down. And
10 that's the experience that Southwest Gas has had.

11 So I think to address the point that Ernest
12 Johnson raised at the beginning, I think there is some
13 merit in bifurcating this process and dealing with
14 natural gas issues possibly separately from the electric
15 issues.

16 With regard to Southwest Gas's specific
17 comments, as we look at the field in Arizona from an
18 energy efficiency standpoint, we identify two primary
19 barriers for improving Arizona efficiency in Arizona.
20 First is the need to remove the financial disincentive
21 that currently exists. We believe that can be done
22 through rate design, or the preferred approach would be
23 do revenue decoupling. The next issue we identify as a
24 primary barrier is the need for Arizona to consider the
25 full energy cycle. And that is what is the most

1 efficient use of that energy source. Southwest Gas
2 believes that by resolving these barriers it will open
3 the door to tremendous opportunities for the state as
4 well for the customers of Southwest Gas.

5 Currently Southwest Gas' commodity rate or the
6 rate per therm that a customer pays is approximately
7 \$1.50. A dollar of that \$1.50 is gas cost. And so the
8 potential for savings is there. And in our last rate
9 case, we had presented evidence that the potential for
10 savings ranges anywhere from 3.8 million to
11 \$22.8 million depending how much more we can get a
12 customer to conserve.

13 As this graph indicates, and I believe as
14 Chairman Mayes mentioned earlier, it was in our '04 case
15 where we received an order in March of '06, I believe,
16 when we first started implementing energy efficiency
17 programs. So there was tremendous decline when we
18 weren't doing anything to promote it. In fact, given
19 the fact that a dollar, or, I am sorry, 50 cents of
20 every \$1.50 of that commodity rate the customers are
21 paying is tied to our ability to recover our fixed cost,
22 we actually have a great concern with that chart because
23 that means, if customers use less gas, we don't recover
24 our fixed costs, which is why we think through rate
25 design we can overcome that disincentive.

1 In addition to the financial savings that are
2 there, I read an article recently. It was an AGA
3 article referenced the J.D. Power & Associates study
4 regarding customer appreciation. And they indicated
5 that although from a gas utility standpoint rates are
6 higher, customer satisfaction is higher as well. And
7 they attribute that to increased energy efficiency
8 programs, increased outreach to customers, customers
9 feeling like utilities were looking out for their best
10 benefit trying to conserve and reduce bills. And they
11 attribute that through the rate design and decoupling
12 that allows utilities to do that.

13 I had to, I was fortunate enough to attend the
14 Arizona energy conference last week. And Commissioner
15 Spitzer from FERC was there. And he made a comment
16 regarding rate design. And that was: The best
17 environmental results are not being achieved because of
18 retail volumetric rate designs. And I absolutely agree.

19 When you look at that graph, and if Southwest
20 Gas' ability to recover its fixed costs and providing
21 safe and reliable service for its customers is tied to
22 customers using 332 therms, it is hard for the utility
23 to watch declining use continue because then that means
24 fixed costs recovery will suffer as well.

25 So the need for decoupling to eliminate that

1 disincentive to decouple the company's fixed cost
2 recovery from its sales level is important.

3 At the first workshop three weeks ago there was
4 a lot of talk about the California model and a lot of
5 talk even this morning about performance incentives.
6 And the one thing that did not come up in that first
7 workshop was the fact that California is a decoupled
8 state. They have decoupling so utilities are
9 indifferent to their sales volume.

10 So from our perspective, we look at answering
11 the question about performance incentives from the
12 standpoint of it is a two-step process. The first step
13 we need to address the disincentive first. We need to
14 decouple our fixed cost recovery from our sales levels.
15 Once we do that, then we can focus on the performance
16 incentives. The energy efficiency standards and goals
17 which we agree with are things that should occur but
18 that is the first step that needs to happen. The next
19 step, the second step would be how can we then maximize
20 energy efficiency and conservation and promoting that.
21 And that's through the incentive portion.

22 With regard to the last workshop, Chairman Mayes
23 asked for bill impact information regarding the
24 performance incentives and hitting the target. Given
25 our chronic decline in customer consumption, we didn't

1 look at it from the point of performance incentive but,
2 rather, we looked it from the standpoint of decoupling.

3 And so if you look at the first bar comparison,
4 you have our recent test year usage levels in the annual
5 bill in the purple. And then in the next, in the red
6 colored graph or bar, you have what the customer's bill
7 would be with a decoupling surcharge. And then in the
8 yellow you see the customer savings they would incur if
9 we hit an 85 percent target. And again this isn't with
10 performance incentives. This is just simply removing
11 that financial disincentive. Then you have 100 percent
12 where the customer savings goes up to 34.72. And if the
13 company were hit 115 percent of that target, it would
14 reach up to \$33.93 of customer savings.

15 So as you can see from that slide, from our
16 perspective it is really a win/win situation. It
17 eliminates the concerns that the company has regarding
18 its ability to recover its fixed costs but, at the same
19 time, it allows customers the ability to save as we get
20 out and promote conservation and energy efficiency.

21 The second barrier identified is full energy
22 cycle. And what I mean by that is we need to consider
23 the energy source from its native form all the way
24 through to the end use and make sure that we are
25 promoting the most efficient energy uses of that energy

1 source.

2 For instance, Southwest Gas is actively pursuing
3 conservation and energy efficiency concepts for
4 residential and commercial applications where we are
5 considering the application of the full energy cycle.
6 That is, we are currently looking at solar thermal water
7 heaters, solar thermal absorption chillers, gas heated
8 water heaters, gas heated air conditioning and space
9 heating. We recognize that some of those items will
10 increase load, some will decrease load. But the point
11 is we are trying to maximize the most efficient use of
12 that energy source, which is of natural gas, which, when
13 it is used as an end use fuel, it is over 90 percent
14 efficient.

15 With that said, you know, I know Jeff Schlegel
16 at the first workshop, I can't remember if it was in
17 response to a question or if he just made the comment,
18 he is ready to get started yesterday, and I would echo
19 those sentiments. I think each day is a missed
20 opportunity for our customers in terms of that gas cost
21 savings that's there. As I mentioned, the dollar of
22 every \$1.50 is a permanent savings for customers if we
23 can get out there and get them to save an additional
24 therm. But right now, given the model we are operating
25 under, we need to change that model. And hopefully

1 that's what will happen as a result of this workshop.

2 With regard to another question raised by
3 Mr. Johnson of where this workshop is going, I can tell
4 you that from Southwest Gas' perspective, whether this
5 results in a policy statement or rulemaking, we are
6 ready to go. You know, we could file an application
7 within, you know, by the end of this year demonstrating,
8 you know, commitment to energy efficiency, laying out
9 plans, programs, establishing our own goals that deal
10 with our specific issues as well as standards, you know,
11 and then also addressing, you know, the decoupling or
12 rate design issues so that we can then implement those
13 plans.

14 CHMN. MAYES: Mr. Brown, can I just go back
15 to --

16 MR. BROWN: Sure.

17 CHMN. MAYES: -- decoupling. As you know, in
18 your last few rate cases and UNS Gas' last rate case,
19 our Staff and RUCO expressed concern about full
20 decoupling because of the possible impact that that
21 would have on low income customers and the possible,
22 and, you know, sort of perverse disincentive to
23 conservation if you completely decouple and there is
24 really no -- people don't, you know, have a price signal
25 at all associated with a commodity, in the throughput of

1 the commodity.

2 So my question is: Do we have to decouple
3 entirely or can we accomplish what you need to do by
4 moving some of those commodity costs into the basic
5 monthly service charge and still get at this problem
6 that you are talking, that you, you know, your company
7 has been talking about for awhile.

8 MR. BROWN: Chairman Mayes, yes, when I use the
9 term decoupling, you know, I use it in the general
10 sense. I think there are multiple ways you can deal
11 with it. The issue is delinking that tie to the
12 commodity portion of the rate. If that's moving fixed
13 cost recovery into the basic service charge, you are in
14 essence decoupling that reliance on the throughput. And
15 that's the issue, is the reliance on the throughput. I
16 think there are multiple ways to go about that.

17 CHMN. MAYES: Okay. Thank you.

18 MR. BROWN: Just, in closing, it is, you know,
19 again, in reference back to the Arizona energy
20 conference last week, we were talking with a gentleman
21 and he asked, you know, who is going to be doing your
22 presentation next week at the workshop. And I indicated
23 that I would. And he says "the decoupling guy." And I
24 think that was in reference to your open meeting in
25 December regarding our rate case. And, quite frankly, I

1 would rather not be known as the decoupling guy, as I
2 would rather be known as the conservation energy
3 efficiency guy, and decoupling is just the means to get
4 us there.

5 We look forward to the opportunity to show this
6 Commission what we can do in terms of helping our
7 customers save given the right model to work within.

8 And with that said, I am available for
9 questions. I also have other representatives from
10 Southwest Gas here today, our vice president of external
11 affairs, Mr. Don Soderberg, to answer any of your
12 questions that the Chairman or Commissioners have.

13 Thank you.

14 CHMN. MAYES: Thank you, Mr. Brown. Do you --
15 and I apologize if you did submit it and I haven't found
16 it in my materials, but can we have these slides?

17 MR. BROWN: Yes. We brought hard copies. We
18 didn't file them. We thought we would bring them to the
19 meeting. We weren't sure exactly procedurally what the
20 Commissioners wanted to do. So we do have hard copies
21 we can distribute before we go to lunch or have them
22 available when you get back from lunch, after lunch.

23 CHMN. MAYES: That would be great. And then did
24 Southwest Gas provide comments or do the homework that,
25 you know, was assigned last time?

1 MR. BROWN: Yes. And this is the format in
2 which we did in terms of the bill impact.

3 CHMN. MAYES: Okay.

4 MR. BROWN: It shows that the annual bill -- and
5 what I mentioned earlier is that we didn't look at it
6 from the performance incentive standpoint given our
7 chronic decline. So what we did, we said, okay, with
8 decoupling just removing the disincentive, if we hit
9 85 percent of that one and a half percent target, what
10 you would have is, even with the decoupling surcharge,
11 customers would pay 59172 instead of the 62122 and they
12 would have a savings of \$30, 29.50. And that's all
13 attributed to the gas costs that are saved. And at the
14 same time it provides the utility the financial
15 stability it needs by delinking that relationship to the
16 sales volume. And then the middle column is the
17 100 percent target. And then the last column is
18 115 percent.

19 CHMN. MAYES: So what you are saying, correct me
20 if I am wrong, you are saying that with decoupling, but
21 also taking into account the savings to consumers
22 associated with the 1.5 percent per year --

23 MR. BROWN: The net benefit is in the yellow,
24 that's the net benefit to customers.

25 CHMN. MAYES: So the net benefit to consumers is

1 \$30 saved, 85 percent?

2 MR. BROWN: Correct.

3 CHMN. MAYES: That's interesting. Okay. And
4 then, so it is Southwest Gas' position -- but is this
5 full decoupling? Or, you know, you heard what I
6 described just a second ago.

7 MR. BROWN: My understanding, and I can confirm,
8 and Brooks will correct me if I am wrong, but this is
9 based upon our proposal in our last rate case, which is
10 the full revenue decoupling.

11 CHMN. MAYES: Can Mr. Congdon, who is your ace
12 witness on all these issues, provide an analysis of
13 something that falls short of full decoupling, something
14 akin to what I was just talking about?

15 MR. BROWN: But moving a fixed recovery into the
16 basic service charge? Yes, we can do that.

17 CHMN. MAYES: I think that would be helpful for
18 the Commissioners to have multiple options in front of
19 us. And it does not include a performance incentive?

20 MR. BROWN: Correct, that does not.

21 CHMN. MAYES: Okay. Thank you, Mr. Brown.
22 Appreciate that.

23 MR. BROWN: Thank you.

24 CHMN. MAYES: Dave Berry from WRA.

25 MR. BERRY: Good morning, Chairman Mayes and the

1 Commissioners. My name is David Berry. I am with
2 Western Resource Advocates. And we are a nonprofit
3 organization whose mission is to protect and restore the
4 environment in the interior west states. We focus on
5 energy, land and water issues.

6 I have just a few brief comments I would like to
7 identify, a couple of themes that were inherent in the
8 written comments we submitted back in February. I would
9 like to address two questions, how much energy
10 efficiency can be obtained and how can the Commission
11 accelerate Arizona's efficiency effort.

12 With regard to the first question, how much
13 energy efficiency can be obtained, I reviewed the impact
14 of energy efficiency programs on the growth of
15 electricity sales from 2001 to 2006 across the 48 states
16 in the continental US. The states vary greatly in the
17 breadth and depth of efficiency programs. The leading
18 states include Vermont, Connecticut, California,
19 Massachusetts, Oregon, Washington and New York. And at
20 the opposite end of the spectrum are Missouri, Alabama,
21 South Dakota, Missouri, Mississippi, Wyoming and North
22 Dakota.

23 Efficiency programs include utility programs
24 plus energy efficiency standards, combined heat and
25 power programs, state building energy codes, state

1 appliance efficiency standards, tax incentives for
2 energy efficiency and energy efficient state building
3 facility programs that lead by example.

4 Many factors contribute to the growth of
5 electricity sales besides energy efficient program, and
6 I took these into account. They include electricity
7 prices, economic growth in the state, changes in the
8 weather and so forth.

9 The programs in the leading states reduced the
10 growth in electricity sales by about 60 percent relative
11 to what growth would have been in the absence of any
12 efficiency programs. Thus, by adopting relatively
13 aggressive efficiency programs, the growth in
14 electricity sales can be greatly curtailed, or, in
15 short, efficiency programs really work.

16 How can the Commission accelerate Arizona's
17 efficiency efforts? Well, there are multiple parties
18 with a stake in the design and implementation of
19 efficiency programs, and most of them are in this room.
20 Therefore, I recommend that the Commission consider a
21 collaborative approach to preparing a joint proposal to
22 the Commission, that the elements of the collaborative
23 effort ought to include efficiency standards or goals,
24 adequate recovery of fixed costs that would otherwise
25 not be recovered as the utility reduces sales due to

1 efficiency programs, and performance incentives for
2 exceeding the standard.

3 And that's pretty much my comments for us this
4 morning.

5 CHMN. MAYES: Thank you, Mr. Berry. First,
6 isn't that what we are doing here?

7 All right. How would that collaborative process
8 be different from what we are doing today?

9 MR. BERRY: Well, I am not sure exactly how this
10 is going to play out, whether it is going to be a
11 collaborative process or something else.

12 CHMN. MAYES: How would you define collaborative
13 process?

14 MR. BERRY: Where the parties work together
15 issue by issue to try to come up with a consensus
16 recommendation to the Commission on each important
17 element of the policy.

18 CHMN. MAYES: Okay. Which is something that
19 happens in workshops, correct?

20 MR. BERRY: Yes, it does. And this Commission
21 has done so successfully in the past.

22 CHMN. MAYES: Okay. Okay. And did you, the
23 analysis you just spoke about, did you provide that in
24 writing to the Commission? I apologize if I don't have
25 it in front of me.

1 MR. BERRY: I provided a summary of it in our
2 written comments.

3 CHMN. MAYES: Okay. On what day?

4 MR. BERRY: I think I submitted them on
5 February 18th.

6 CHMN. MAYES: The original written comments?

7 MR. BERRY: Yes.

8 CHMN. MAYES: Okay. Did you have a chance to
9 analyze the 20 percent, 1.5 percent per year, the issue
10 of performance incentives, the issue of providing
11 funding as a percent of annual revenues, those types of
12 things?

13 MR. BERRY: In that study I did not do that.

14 CHMN. MAYES: Okay.

15 MR. BERRY: I have talked with Mr. Schlegel on
16 many occasions about what standards would be appropriate
17 for Arizona, and I would agree with SWEEP's proposal.

18 CHMN. MAYES: You agree with SWEEP's proposal?

19 MR. BERRY: Yes.

20 CHMN. MAYES: Okay. And in your, I think in
21 your original comments you talked about the Colorado
22 experience and some co-ops in Colorado. Can you
23 elaborate on that.

24 MR. BERRY: I provided several examples of what
25 I thought were innovative programs. And I would hope

1 that would be one of the things that would come out of
2 the efforts that utilities to pursue, and that is to be
3 innovative in creating and implementing their efficiency
4 programs.

5 CHMN. MAYES: Okay. So it is your experience
6 that there are some cooperatives out there that have
7 engaged in pretty, in somewhat aggressive energy
8 efficiency programs?

9 MR. BERRY: Both investor owned utilities and
10 public power entities have prepared and implemented
11 innovative programs.

12 CHMN. MAYES: Why do you believe it is necessary
13 for the Commission to set a standard, you know, a target
14 of 20 percent whenever it is?

15 MR. BERRY: Chairman Mayes, I think it gives
16 both the Commission and the utilities some fairly
17 specific direction. And if you have vague, very vague
18 direction, then you are probably going to get more
19 variety than you had hoped for.

20 CHMN. MAYES: Okay. And in terms of performance
21 incentives versus decoupling, does WRA have an opinion
22 as to which would be more effective, and whether
23 decoupling is something that is more appropriate for
24 discussion with regard to gas companies?

25 MR. BERRY: Well, I think there, there are two

1 issues here.

2 One is the institutional capability of the
3 organizations you are trying to regulate or you are
4 regulating and would like to see pursue efficiency
5 programs. And what may work well with one organization
6 may not work well with another.

7 The second issue is there are a variety of
8 things what you are trying to accomplish. You are
9 trying to encourage the utilities to reach a standard or
10 goal for efficiency. You want to deal with the issue of
11 the unrecovered fixed costs and you want to incent the
12 utilities to do as good a job as they can. And there is
13 a mix of tools which are available to do that. And they
14 certainly include performance incentives. They may
15 include other regulatory approaches as well. I will
16 leave it very general at that. There is no one way to
17 do it. And there probably are several techniques that
18 you would want to apply on any particular case.

19 Otherwise you may end up with a very unusual and
20 unexpected result that impacts ratepayers adversely.

21 CHMN. MAYES: Okay. Thank you very much. I
22 appreciate it.

23 I think we are going to take a break now, come
24 back at 1:30 this afternoon. We have got a couple other
25 commenters and then I think we want to have sort of a

1 general discussion, have Staff chime in and maybe
2 discuss where we go from here.

3 Thank you. We are recessed.

4 (A recess ensued from 11:35 a.m. to 1:38 p.m.)

5 CHMN. MAYES: Let's go ahead and get started
6 again.

7 Thanks, everybody, for coming back. I know
8 there are several Commissioners at the lunch that I just
9 left. So they will probably be coming in over the next
10 hour or so.

11 I think we have a request to speak from several
12 additional folks. We will go to them. And I think
13 Mr. Schlegel asked to speak. And I think anybody else
14 who wants to provide any additional comment based on the
15 comment made this morning, we would be glad to hear
16 that. And I think what we are going to do next is talk
17 about next steps, where we go from here.

18 Paul walker. Mr. Walker, are you here?

19 MR. WALKER: Yes. Thank you.

20 CHMN. MAYES: Okay.

21 MR. WALKER: Thank you, Chairman Mayes. My name
22 is Paul Walker with Insight Consulting. I wanted to
23 talk about a few issues that I think are important as
24 the Commission considers energy efficiency.

25 There are two big obstacles that I think arise

1 in energy efficiency discussions. One is economic
2 challenges to it. And the other is the social justice
3 problems that arise out of it.

4 The economic perspective, the fundamental issue
5 is what is called Jevons paradox, which arose in the
6 1800s. And what it is, when a resource begins to be
7 used more efficiently, it does not become used less. It
8 becomes used more absent some external cap or some
9 external price increase.

10 And the perfect example of Jevons paradox was
11 actually given this morning by Mr. Neville from Sedona.
12 He talked to the Commission about 3M's investment in
13 energy efficiency and explained that 80 percent more
14 energy efficiency has been achieved by 3M in the last 15
15 years. He explained that in a period of 2005 to 2007 3M
16 achieved an 18 percent increase in energy efficiency.

17 That information appears to have come from a
18 website Solutions.3M.com. And it is all accurate. But
19 if you scroll down, you get to see Jevons paradox in
20 action because 3M's energy use they converted all MMBtu,
21 so apples to apples. In 2006, 3M used 9,342,000 MMBtu
22 of electricity; in 2007, 9,593,000 MMBtu. Natural gas,
23 they had 15 million MMBtu in 2006; a year later,
24 15,227,000; gasoline and diesel fuel, 330,000 MMBtu in
25 2006; 2007, 363,000 MMBtu.

1 Jevons paradox cannot be avoided unless the
2 Commission takes, I think, one of three paths that
3 exist. And this is not Paul walker. God forbid we
4 should rely on his economic analysis. You can look into
5 the analysis of Whackernagel -- bad name --
6 W-H-A-C-K-E-R-N-A-G-E-L, and William Rees, R-E-E-S, who
7 wrote about it in 1997, or Robert Costanza,
8 C-O-S-T-A-N-Z-A, and Herman Daly, D-A-L-Y, who wrote
9 about this in 1992. Those are the two most recent. But
10 this lineage of Jevons paradox economic analysis goes
11 140 years.

12 You have to do one of really three things. You
13 can have a hard cap on what your system load or your
14 load per EDU is and then base your energy efficiency off
15 of that. Otherwise you are just looking at decreasing
16 from a business as usual trajectory that's higher, as
17 you have seen in 3M. You had 18 percent achievement in
18 energy efficiency and used much more because they set
19 their Btu assumption really high and it looks good.

20 I don't think that hard caps are workable. As
21 we all know, the contract that exists between utility
22 monopoly service and the customer is such that the
23 customer gets to use electricity when they need it and
24 the utility needs to provide it. So then you have to
25 look at other options.

1 I think you can increase the cost of the
2 resource while at the same time achieving efficiency,
3 make it more expensive so that when the customer sees a
4 decrease in the electric rate they don't just drive the
5 thermostat down a little bit or, in the case of
6 commercial or industrial application, run the equipment
7 longer because it is cheaper to do so.

8 CHMN. MAYES: Well, Mr. Walker, isn't that what
9 we can assume is going to happen anyway over time,
10 given, you know, recent megatrends?

11 Commissioner Spitzer talked about on Friday here
12 in Phoenix that the megatrends for energy costs are only
13 going up. Are you suggesting prices ought to be raised
14 above what they, what we assume they will based on, you
15 know, upward pressure from growth and upper pressure on
16 commodity prices.

17 MR. WALKER: I agree with Mr. Spitzer, that the
18 long-term trend is upward. The global aspects as he
19 delineated are going to drive the price up. But if the
20 Commission adopts energy efficiency to try and make the
21 energy be used more effectively, the temptation will be
22 to somehow correlate that to the customers' bills.

23 Really the only way to achieve the broad
24 dampening of demand is to not allow the full effect of
25 that to flow through the customers' bills. That is

1 where we get into revenue decoupling. It seems
2 inexorable that something has to be done to prevent the
3 bill from going down.

4 The third important thing to understand is that
5 energy efficiency does not equal decreasing energy
6 usage, which is what Jevons is about. And I just urge
7 the Commission to bear that in mind as they go through
8 their analysis. To get where the Commission wants to
9 go, I don't see any path other than working with the
10 utilities and customers to make sure there are
11 incentives available to them.

12 For the utilities, it seems there is a range in
13 my mind of possible incentives, on the one hand
14 capitalizing on energy efficiency and providing a return
15 on energy efficiency investments. Another would be
16 revenue decoupling or some level of revenue decoupling.
17 And if you go to energy efficiency, goal achievement
18 equals increased rates of return. These have all been
19 tried in other states.

20 I think the Commission needs to adopt one of
21 those positions but recognize clearly that it either may
22 have to go farther in order to achieve its goals or that
23 it is willing to go farther if the utility exceeds the
24 expectation. The incentives that exist right now can't
25 be met just through fiat. I think there has been an

1 economic component significant to utilities. And I
2 think that's where we get into the social justice
3 issues.

4 CHMN. MAYES: Paul, can I just ask you, looking
5 at it from the customer's perspective, though, and going
6 to your point about, you know, bending the curve on
7 energy use, from the customer's perspective, doesn't
8 full decoupling actually discourage conservation when
9 you have -- essentially you have no price signal
10 associated with the commodity anymore. How does that
11 encourage anybody to conserve when there is no price
12 signal on a bill associated with a commodity?

13 MR. WALKER: Right. A full decoupling would
14 achieve exactly that. But a level of decoupling that
15 takes fixed costs out and decouples a large component
16 the variable costs would not provide an incentive to use
17 more.

18 The element that you have to look at, though, is
19 very, very high tiers for usage in excess of what the
20 average demand is. You have to get a little bit
21 punitive really with people that don't get the
22 conservation aspect of energy efficiency.

23 CHMN. MAYES: Okay.

24 MR. WALKER: And on the customer incentive
25 side, the concern that I have from an economic

1 perspective is there is a huge benefit for low income
2 customers and energy efficiency and weatherization. And
3 that's great. Until you -- when I was a kid, I lived in
4 a tarpaper shack and APS showed up one day and put in
5 insulation and made a huge difference in my life. And
6 that's great. But low income houses are not the
7 backbone of large demand. They don't have multiple air
8 conditioning units. They may have none. They aren't
9 3,000, 4,000 square foot houses. They are relatively
10 small. So while low income weatherization is essential,
11 it doesn't really get us where we need to go on a broad
12 load shifting perspective.

13 The other side of the issue is, for people who
14 are well off, there are rebate incentives available for
15 new HVAC systems, solar attic fans, solar water heaters,
16 all kinds of incentives. But you need to have cash to
17 show up.

18 So what we do is we leave out the broad middle
19 class. And I think that is going to be a critical
20 element of energy efficiency, because whether you talk
21 about revenue decoupling and taking away some of the
22 benefit economically from them conserving, there has to
23 be some benefit that exists for them. And I think that
24 needs to be government and utility support for their
25 investment in improving their own home.

1 So I think the Commission ought to consider very
2 seriously listening what the utilities have to say about
3 being aggressive on rebate programs, being aggressive
4 how federal grant, stimulus money, state money is
5 provided to these customers and not be quite as
6 concerned about whether the utility is charging the full
7 cost or whether the customer is getting the unit for
8 zero dollars, but be more concerned about broadening the
9 number of people that can achieve some rebate on an
10 energy efficiency investment.

11 The CFLs are a great tool, affordable really to
12 almost every household. But there are others,
13 insulation rebates, weather strip rebates, solar attic
14 fans, the cheapest solar resource that exists. All of
15 these things should be part and parcel of what the
16 Commission allows utilities to go out and try to place
17 on a very, very broad perspective.

18 So with that, I thank you for your time and your
19 questions. And congratulations to the Commission for
20 looking at energy efficiency in such a complete way. It
21 is absolutely essential.

22 CHMN. MAYES: Thank you, Mr. Walker. I did not
23 learn about the Jevons paradox in graduate school. I
24 will have to go back and read up on that. Thank you
25 very much.

1 We have a request to speak from Don Stoneberger.
2 Don.

3 MR. STONEBERGER: Chairman Mayes, Commissioner
4 Kennedy, my name is Don Stoneberger. I am the energy
5 manager for Freeport-McMoRan Copper & Gold. And I am
6 here to give an end user perspective to energy
7 efficiency.

8 Freeport-McMoRan is behind almost every utility
9 co-op and municipality in the State of Arizona. We are
10 a proponent of self-directed programs obviously. And
11 energy is a large portion of, a large component of our
12 cost. We have a technology center in house. And one of
13 their primary, one of their primary functions is to find
14 energy efficiency solutions for our business. And I
15 want to provide just one example today of some of the
16 things we are doing.

17 We have a proprietary process that has reduced
18 the energy consumption in our tank houses by using
19 alternative anodes that redistribute our electricity
20 cost per pound of copper per 25 percent. This is, this
21 process has changed the copper industry. We are the
22 only ones with this process currently. We have done
23 this not because this was mandated but because it makes
24 sense.

25 These loads in these tank houses are

1 approximately five megawatts per site. So 25 percent
2 reduction is significant energy efficiency.

3 As an aside, these alternative anodes also allow
4 us to shift load in these tank houses. The old
5 technology, you have to keep these tank houses at a
6 certain voltage or you will ruin your cathode process.
7 These allow us to shift the load so we can actually take
8 some of these processes and shift them over to evening
9 hours.

10 I want to talk a little about Colorado's program
11 because we also have businesses in Colorado. As a rule,
12 we always spec out the highest efficiency motors that we
13 can. And in Colorado, as we know, they have a high
14 energy efficiency motor program. We do not participate
15 in that because it would cost us more to participate in
16 the program than just to do our normal process of
17 procuring high efficiency programs.

18 The last thing I want to talk about is
19 measurement and participation accounting. Our load is a
20 function of the economy. As the economy improves and
21 our products are more in demand, our load is going to go
22 up. We may implement very effective energy efficiency
23 programs but if they are not measured correctly, either
24 the utilities or us will not see that and it won't be
25 counted.

1 And that's my comment for you today.

2 CHMN. MAYES: Thank you very much for being
3 here, Mr. Stoneberger. And a couple quick questions.

4 So are you suggesting that it is your hope that
5 the Commission would adopt some sort of self-directed
6 option under any energy efficiency rulemaking that we
7 would do akin to the renewable standard self-directed
8 option?

9 MR. STONEBERGER: Commissioner Mayes, that's
10 correct. We have, we have already implemented most of
11 the standard energy efficiency programs that we can,
12 light bulbs, motors. So in order for us, in order for
13 us to see value in our surcharges, we would like to have
14 some self direction.

15 CHMN. MAYES: Okay. And I certainly am, from
16 this Commissioner's standpoint, willing to look at that.
17 I, you know, I think it is one of the things about the
18 renewable energy standard that I am proud of and that I
19 am hoping is working. But let me ask you about that.

20 Are you taking advantage of the self-directed
21 option under the renewable energy standard yet at any of
22 your mines?

23 MR. STONEBERGER: Are you asking me that from an
24 MWER improvement perspective or from the mining company
25 perspective?

1 CHMN. MAYES: Both.

2 MR. STONEBERGER: I am not a representative of
3 the utilities.

4 CHMN. MAYES: Okay. Well, how about the
5 company, do you know if the company is taking advantage
6 of that? I mean because you can do that, I think, in
7 any of your mines.

8 MR. STONEBERGER: We sure can. And I can, I can
9 tell you from the mining side that we are participating
10 in APS' distributed RFP. I just, I just spent the last
11 four days in our New Mexico and our Arizona sites with
12 solar developers trying to find an appropriate site on
13 our property for solar development.

14 CHMN. MAYES: Where is that now? In New Mexico?

15 MR. STONEBERGER: And Arizona, I was at Safford
16 and Ajo.

17 CHMN. MAYES: And would you, and I know you just
18 said you are participating in APS' DG RFP, but you don't
19 have to do that in order to take advantage of the
20 self-directed option.

21 MR. STONEBERGER: Oh, no, not at all.

22 CHMN. MAYES: Okay. So you are looking at both.

23 MR. STONEBERGER: Yes.

24 CHMN. MAYES: Great. Okay, good. I am glad.

25 And I think it would be great for all the Commissioners

1 to know how that turns out. And so if we could be in
2 touch, that would be terrific.

3 MR. STONEBERGER: Fair enough.

4 CHMN. MAYES: Thanks for being here.

5 We have Malissa Buzan. Malissa, did you want to
6 speak? Come on up. Weatherization manager for Gila
7 County.

8 MS. BUZAN: Hi.

9 CHMN. MAYES: Good to see you again.

10 MS. BUZAN: Commissioner Mayes, members of
11 the board, I just wanted to say today that I am in favor
12 of the higher standard and that in Gila County, and I
13 can only speak for Gila County, is that our
14 weatherization program through the utilities, we are
15 very grateful for what we receive there in Gila County.

16 We are -- you know, I represent the low income
17 households of Gila County and we weatherize homes there.
18 We are also doing solar hot water heating on our major
19 rehab jobs now with Arizona Department of Housing
20 dollars. So I just want to say that I am in favor of
21 it. I appreciate all the monies that we get from the
22 utility companies. They have been very helpful.

23 There is a greater need than money. We are
24 ramping up right now with the stimulus dollars.

25 I do want to make a comment that I think in a

1 year or so that the utility companies with the energy
2 efficiency programs are going to see a higher amount of
3 rebates coming in. In Gila County there are no BTI
4 certified contractors right now that are able to take
5 advantage of our APS rebate, the APS rebates. So we are
6 going to be training HVAC contractors and also general
7 contractors with building science and energy audits and
8 being certified in that so they are able to take
9 advantage not just for the low income but for the
10 greater component of the middle class.

11 CHMN. MAYES: That's great. And thank you,
12 Malissa for being here. And I was wondering how
13 agencies like yours were getting ready to use all that
14 stimulus money because there is a lot of it coming your
15 way.

16 MS. BUZAN: Yes. I was happy --

17 CHMN. MAYES: It is --

18 MS. BUZAN: -- to get the amount on the e-mail
19 system a couple days ago and I am still in shock.

20 CHMN. MAYES: Overwhelmed.

21 MS. BUZAN: But it is going to be a good thing
22 because after it is gone we are going to have certified
23 contractors and people for the middle class, for
24 everybody, available that will be able to --

25 Industry standards for contractors are not

1 necessarily energy efficient, or the building science
2 component of energy efficiency. So it has taken, at
3 least in Gila County, it has taken me a long time to
4 persuade contractors and HVAC contractors that there is
5 a different way to do it.

6 CHMN. MAYES: Okay. Do you know how many more
7 contractors you are going to need to be able to handle
8 all the stimulus money coming in?

9 MS. BUZAN: How many more? I have people
10 calling me every day right now because of the housing
11 issues. Payson was booming and now I have people coming
12 down. So I don't know that I will need a lot more. I
13 have already given a proposal to my director on how we
14 are going to ramp up. And most of it is going to be
15 with private industry contractors. I have eight right
16 now.

17 CHMN. MAYES: Okay.

18 MS. BUZAN: And I figure if they could do 20 to
19 30 units a year, I will be at the numbers that our state
20 department wants us to be at.

21 CHMN. MAYES: For Gila County.

22 MS. BUZAN: For Gila County.

23 CHMN. MAYES: Okay, great. All right. And if
24 we, certainly if we -- is it, is it your position or
25 position of Gila County that this Commission should

1 adopt a standard, for instance, 20 percent --

2 MS. BUZAN: Yes.

3 CHMN. MAYES: -- energy efficiency standard
4 ramped up over time?

5 MS. BUZAN: Yes.

6 CHMN. MAYES: Okay. Thank you for being here.

7 MS. BUZAN: Thank you.

8 CHMN. MAYES: And then, let's see, Robert
9 Hoskins. Robert, did you want to speak? No? Okay.
10 Thank you for being here. I appreciate your presence.

11 And let's have -- is Mr. Schlegel back from
12 lunch? No. Okay. Is there anybody -- I know he wanted
13 to speak to some of the issues.

14 Is there anybody else that would like to respond
15 to some of the issues that were raised earlier today in
16 the room?

17 (No response.)

18 CHMN. MAYES: Okay. I would like to hear from
19 Mr. Schlegel. We may take a bit of a break to see if he
20 is coming back. I had some additional questions for
21 him.

22 Let me throw this out there before we start
23 discussing where we go from here. Is there anyone, is
24 there any utility in the room that is currently opposed
25 to the Commission moving forward with preparations for

1 the possible adoption of a standard, a target, a goal or
2 a standard for energy efficiency in the State of Arizona
3 in this process?

4 (No response.)

5 CHMN. MAYES: None? No one is opposed to that?
6 Is there anyone in the room who is opposed to moving
7 forward with the proposal of a 20 percent energy
8 efficiency goal in Arizona ramped up over time?

9 Mr. Hughes, do you want to come forward?

10 And if any utilities have concerns about that,
11 you know, I think that would be something to hear as
12 well.

13 Mr. Hughes, Dennis Hughes.

14 MR. HUGHES: Madam Chairman, I want to qualify
15 my answer. I am not opposed to the 20 percent number,
16 but I want to ask this question, I guess, or explore
17 this idea. If we are going to do 20 percent energy
18 efficiency on top of 15 percent renewable energy, then I
19 feel it is quite a daunting goal. So when I qualify my
20 answer, if there were an opportunity to use some cross
21 benefits, if you will, for instance if we put in a solar
22 water heater, certainly it would qualify for a renewable
23 energy technology, would it not also qualify as an
24 energy efficiency technology?

25 So we all need a goal to work for. And my

1 answer wasn't that I am opposed to 20 percent, but when
2 you add that to 15 percent of renewable energy in the
3 space of 10 years, we are asking utilities to replace or
4 change 35 percent of the retail energy that they
5 provide. And to me that's going to be a difficult task.

6 CHMN. MAYES: Okay. And I appreciate those
7 comments, Mr. Hughes. While I have you up here, I was
8 going to talk to you about what you are doing at
9 Navopache as one of the two co-ops that's actually doing
10 some actual energy efficiency programs. Can you talk to
11 us about that.

12 MR. HUGHES: I can. Madam Chairman,
13 Commissioner Kennedy, I passed out an information packet
14 earlier this morning. And I think that would be the
15 place to start.

16 That is the latest program. It has to do with
17 visiting schools in our service territory. And you can
18 see by the material it is kind of a, it is a competition
19 for kids to go home and do certain things in their homes
20 that lead to energy efficiency. Their parents are then
21 required to sign off that they did these things. The
22 children bring back that signature, if you will, and
23 they get a certificate signed by CFL Charlie.

24 When we implemented this program, we not only
25 send the kid home but we do include a pack of CFL bulbs

1 with it to get folks started. That's the latest thing
2 we are doing.

3 We are going to look very hard at an Energy Star
4 appliance program, some kind of a partnership there. We
5 do give away CFLs at our annual meetings, probably 500
6 each year.

7 I suppose a difficulty is to measure the
8 results. I mean you can make a broad statement that a
9 CFL uses 75 percent less electricity, but how many
10 people actually took them out installed them? When one
11 burned out, did they replace it with a CFL? So there
12 are monitoring issues that we are concerned about.

13 Going back in time previously, Mr. Neville
14 talked about a program of energy audits, and the
15 gentleman just a moment ago brought it up again. We
16 have been doing energy audits and heat loss studies for
17 25 years now. And we do exactly what Mr. Neville
18 described; however, we take it one step further. We
19 will actually offer financing for members to do weather
20 stripping, increase insulation, change from, say, a
21 resistive baseboard heater to a thermal storage heater.
22 We will finance those costs to our members at 5 percent
23 for five years. The Rural Utility Service makes
24 available money on an annual basis for these kinds of
25 programs. They are called ERC loans, energy resource

1 conservation loans. And we are very active in that.

2 Commissioner Newman was asking about level of
3 participation. We instituted time of use rates in 1984
4 for all of our customer classes. Time of use rates on
5 their own may not be an energy efficiency program, but,
6 as I thought about coming down here today, actually it
7 is.

8 A water heater, electric water heater left to
9 run on its own 24 hours a day is a terribly inefficient
10 way to heat water in my view. So time of use rates
11 allow a person to heat only water at the time that
12 electricity costs are half price. And in our service
13 territory, 65 percent of the time is half price
14 electricity.

15 The other program that I looked at real hard was
16 a demand-side management program. And then I started
17 thinking about it more, and it is really an energy
18 efficiency program as well. Essentially we have given
19 away or rebated almost 8,000 electric water heaters over
20 the past 15 years. We require that those water heaters
21 be high efficiency. And essentially that means they use
22 about 200 kilowatt hours annually less than a standard
23 water heater. So even though our motivation was to
24 control demand, as I really drilled down at that
25 program, it is actually an efficiency program as well.

1 We also offer electric thermal storage heaters.
2 Again, the efficiency part comes in when you compare
3 someone in our neighborhood who may be using electric
4 baseboard heaters and just letting them run and call for
5 heat whenever they may. If you restrict the operation
6 of that electric heat source to the off-peak hours,
7 again at half price, I feel it really is an energy
8 efficiency program.

9 And our participation level, I should tell you I
10 mentioned we have given away almost 8,000 water heaters,
11 or rebated that, that we have 5,000 customers
12 participating in time of use rates. And we have
13 25 megawatts of electric thermal storage heaters
14 installed and operating presently.

15 So in a nutshell and to be brief, that is what
16 we are doing. We are willing to do more and we are
17 willing to work toward a goal. And we are going to work
18 with Grand Canyon State Cooperative on the programs that
19 they develop.

20 And one final comment, Madam Chairman, if you
21 read some of the material, this is kind of anecdotal but
22 I got to tell you, you will be reading along in some of
23 this material and all of a sudden you will see six
24 numbers that mean absolutely nothing. That's an account
25 number. We hide them in our monthly newsletter and give

1 our members a \$10 credit if they find it. So if you
2 find it, try not to worry about figuring out what in the
3 world does 747005 mean. It has nothing to do with the
4 story.

5 CHMN. MAYES: Only at the cooperatives. That's
6 awesome.

7 MR. HUGHES: Yes.

8 CHMN. MAYES: I love that. Okay. Thank you,
9 Mr. Hughes, very much for coming down. As always, I
10 appreciate that. It is a very colorful and creative
11 thing you are doing with your schools.

12 MR. HUGHES: Thank you.

13 CHMN. MAYES: So I appreciate your efforts and
14 your comments.

15 So, again, I am going to throw this out there
16 before I let Mr. Schlegel get up and speak. But I asked
17 the room whether there was anyone who was opposed to the
18 Commission moving forward with examining a 20 percent
19 energy efficiency goal for the State of Arizona with a
20 yearly ramp-up. I will add that into the request. Is
21 there anybody who is opposed to that in the room today,
22 any utilities opposed to that in the room today?

23 (No response.)

24 CHMN. MAYES: Any utilities with a concern about
25 that in the room today?

1 Mr. Guldner.

2 MR. GULDNER: Chairman Mayes, Commissioner
3 Kennedy, and not so much a concern as just a
4 clarification. As we, as we understand, SWEEP was the
5 one that put a proposal in. And one of the things they
6 talked about in their proposal, I think, was a
7 15 percent. You look at the 20 percent target goal,
8 that part of that you have some organic efficiencies
9 that come from standards and codes --

10 CHMN. MAYES: Building standards, building
11 codes, yes.

12 MR. GULDNER: -- and that's not necessarily
13 utility controlled, and the utility piece at 15 percent.
14 And that is just a question on clarification. That's I
15 think the --

16 CHMN. MAYES: Is that APS' preference, or the
17 utilities' preference?

18 MR. GULDNER: I think, Chairman Mayes, as you
19 look at the standard, obviously I think we have got some
20 work, I think, to do in a technical, or in a
21 subcommittee on the cost. I think the Commission is
22 going to want to see the cost and some of the risks
23 associated with different standards.

24 From our perspective, 15 percent is probably a
25 more, you know, we would say probably more achievable

1 standard than a 20 percent from just the utilities
2 sector, recognizing for example, that there is a
3 significant amount of weatherization funding and other
4 funding that's going to be coming into the state from
5 stimulus money that will be grabbing a bunch of the, I
6 don't want to call it low hanging fruit, but some of the
7 more economically achievable energy efficiency that
8 won't be in the utilities' direct purview.

9 CHMN. MAYES: And I appreciate what you are
10 saying. And I know that's SWEEP's proposal. Is
11 20 percent doable, at 20 percent, not including the
12 building code savings?

13 MR. GULDNER: I hesitate. I would rather have
14 one of our program people like Mr. Wontor.

15 We have the study, of course, so you can look.
16 One of the challenges that you have is what is going to
17 happen to costs over time. If you look today and you
18 see what it is going to cost to achieve some of that
19 energy efficiency, you could look and say it may not be
20 achievable because it becomes not cost effective as you
21 get into the higher, higher levels. If costs come down
22 in the future, then maybe it becomes more achievable.
23 If other factors increase such as the resource you are
24 comparing it against, because of climate change or other
25 things, then maybe that also affects the analysis.

1 So it is hard to, hard to address it today. But
2 we can certainly present evidence on what we think are
3 our best estimates of what the costs would be and what
4 some of the challenges would be. As I think other folks
5 have indicated here, there are policy issues we have got
6 to tackle along the way to get there.

7 CHMN. MAYES: Well, and I think, you know, what
8 this Commission decides to do is something, you know,
9 that is a little bit down the road still. But I think
10 both scenarios are something we want to look at. And I
11 think both scenarios are potentially reasonable.

12 But I understand when you are saying about costs
13 down the road, costs may fall down the road and maybe
14 some Commission in 10 years will want to raise that,
15 that standard or that target.

16 So I appreciate those comments and we will
17 consider both of those, hopefully consider both those
18 scenarios. And I just wanted to put that out there
19 because I think it is sort of a baseline for us going
20 forward to understand what we are working toward. And
21 then the next question is, you know, to understand
22 whether there is, there is broad support or at least not
23 broad objection to an energy efficiency goal in Arizona.
24 And then the next thing we need to do is look at how we
25 go about achieving that. So that's why I put that out

1 there.

2 MR. GULDNER: And we would support that.

3 CHMN. MAYES: Okay. Thank you, Mr. Guldner.

4 Mr. Heyman.

5 MR. HEYMAN: Good afternoon, Commissioners. Ray
6 Heyman. I just want to go on record to let you know
7 UniSource and TEP are not objecting at all to the idea
8 that you come up with a standard. We just want to make
9 sure we have an opportunity to help you flesh out the
10 details ahead of time.

11 CHMN. MAYES: Yes. And that's, absolutely, I
12 think there is going to be ample opportunity. And I
13 think the Commissioners who are here today are going to
14 talk about how we move forward with that, the next set
15 of workshops or collaborative working groups, whatever
16 you want to call it, that we will have sort of to flesh
17 out some of these details and really start getting in
18 the weeds about the details of the potential standard
19 and the incentives that need to go along with it.

20 MR. HEYMAN: Fair enough. Thank you.

21 CHMN. MAYES: Thank you.

22 Anybody else? Mr. Schlegel, do you want -- I
23 know you requested to speak.

24 MR. SCHLEGEL: Thank you, Chairman Mayes,
25 Commissioner Kennedy. Jeff Schlegel from SWEEP,

1 Southwest Energy Efficiency Project.

2 This probably won't come as a surprise to you,
3 but SWEEP does support, fully supports the 20 percent by
4 2020 overall goal in terms of the standard, the energy
5 efficiency standard.

6 We did propose a standard for the utility DSM
7 program of at least 15 percent by 2020. And the key
8 words in that sentence are at least. And we also looked
9 at the average annual savings that would be necessary to
10 achieve that. And that's how we got to the 1.5 percent.

11 I think as you well know, the Commission has
12 quite a bit of discretion and flexibility in the ways
13 and means and mechanisms that it uses to set any such
14 standard. It may be appropriate to set an overall
15 multiyear standard in the way SWEEP did at 20 percent or
16 at least 15 percent by 2020 level and clarify exactly
17 which policies contribute to those, those levels,
18 whether that's just the energy efficiency DSM programs
19 or combination of those plus other strategies.

20 I think in the near term, I think it is
21 essential to not only do that but to set some level of
22 standard in the way that you did in the REST that says
23 thou shalt achieve this level of standard, this level of
24 energy savings in year X and an additional level of
25 savings in year Y so that you make it very clear what

1 the target is in terms of where you are heading, say, 10
2 years from now or by 2020, but that in the near term you
3 also set annual savings goals.

4 And that's essentially the two components of
5 what SWEEP was proposing: A target or a goal,
6 20 percent by 2020, that's consistent with what the
7 Western Governors have adopted and that is a meaningful
8 goal and one that can be achieved through a number of
9 different mechanisms; in addition, having very specific,
10 whether they are 1.5 percent per year or 1.5 percent of
11 total energy resources per year or some other number in
12 the early years year by year as you have in the tables,
13 for example, in the REST. A combination of both are
14 going to be important.

15 In terms of the technical working group, I have
16 discussed with --

17 CHMN. MAYES: Mr. Schlegel, before you go into
18 that, can I ask you --

19 MR. SCHLEGEL: Sure.

20 CHMN. MAYES: -- do you think that -- so does
21 the 20 percent that the WGA supported include the
22 building code savings?

23 MR. SCHLEGEL: When WGA wrote its CDEAC, clean
24 diversified energy report, they included all of the
25 energy efficiency policies in reaching their conclusion

1 that the 20 percent was feasible. That was their
2 presentation.

3 Now, that said, there is nothing to prevent a
4 state from leading and going beyond what the WGA found
5 as a body. Remember, this is a consensus body. And,
6 because of that, it tends to be the least common
7 denominator body. That's what it took basically for
8 people to commit 20 percent by 2020. That doesn't
9 necessarily mean another state couldn't do more than
10 that and other states could choose to do less than that.
11 It is up to the State of Arizona to set its own
12 standard. I think it is helpful to be reasonably
13 consistent with that standard but nobody has to hit it
14 right on. For example, Utah set a standard stronger
15 than that. Achieving that level by 2015 Governor
16 Huntsman has set. They chose not to create a higher
17 percentage but they chose to set a goal to achieve it
18 sooner. That's always a strategy. Another strategy is
19 to obviously keep the same year and have a higher
20 percentage.

21 And I think for Arizona, you know, one important
22 consideration is how do you get to where you want to go
23 and how does the current economy and current evolution
24 of programs help get you there, and in particular what
25 do you want to do with energy policy and energy savings

1 and how that links up with the economic realities and
2 economic opportunities that the state has.

3 You just came, both of you came from the same
4 presentation I was at and there was an awful lot of talk
5 of jump starting the Arizona economy and creating jobs
6 and building economic development. And, you know, I
7 would submit that five years ago when SWEEP said
8 20 percent by 2020, at least 15 percent through utility
9 programs, fine. If you, if you feel it is important to
10 really get the economy going and get some of these job
11 creations going and building an industry here in energy
12 efficiency in the same way people are talking about the
13 solar industry just an hour ago, then there are some
14 strategic advantages to getting going earlier and
15 setting a slightly more aggressive path than, again,
16 what may have been said by governors of the western
17 states five years ago.

18 CHMN. MAYES: How does the -- how shall I phrase
19 this -- willingness or lack of willingness of the state
20 legislature to move forward on building code reform
21 affect your proposal?

22 I mean, in other words, if we are counting on
23 5 percent to come from building codes and, I don' know,
24 you know, and that just doesn't materialize down the
25 street, what then?

1 MR. SCHLEGEL: Chairman Mayes, very good
2 question. That's one of the reasons that we said at
3 least 15 percent. You know, we, as I think as you well
4 know and I am sure Commissioner Kennedy knows as well,
5 we consider the utility energy efficiency programs to be
6 one of the best ways to assist customers and, frankly,
7 the work horse, in terms of being able to deliver direct
8 savings for customers. These other policies are less
9 certain. I think they, for both the codes and the
10 appliance and equipment standards, we consider both
11 federal action and state action contributing to that
12 overall.

13 So, for example, the standards that were set in
14 2005 that this Commission, some of the Commissioners
15 came down and helped testify at our legislature, most of
16 those standards have now been adopted by the federal
17 government. But it took Arizona leadership as well as
18 the leadership of 10 other states to take that action to
19 get the federal government to say, well, we don't want
20 to have 10 states that have these standards and 40 state
21 that don't, so let's finally move towards all 50 states
22 having these standards.

23 But if Arizona-- Arizona was crucial in that.
24 If Arizona hadn't come forward, it would have been the
25 normal states, the northeast and California and Oregon

1 and Washington. And I think people in DC and the
2 manufacturers woke up and said, Jesus, if Arizona is
3 setting standards, 12 product standards that no other
4 state in the west, in the interior west or midwest had
5 at that time, we really should, you know, sit up and
6 take notice. And we got those standards, most of those
7 products adopted as standard. So that's sort of an
8 example of the state leading and influencing the federal
9 government.

10 In other ways it is possible that the federal
11 government might lead the states. For example, in the
12 stimulus money there is the conditions to make progress
13 on the regular adoption of the building energy codes.
14 And, you know, the governor had to submit a letter on
15 that on Monday in terms of commitment, or assurances,
16 excuse me, relating to those conditions.

17 Obviously this is a home rule state. But it may
18 be that the IECC, the next adoption of the IECC, the
19 2009 adoption, is 15 percent more efficient roughly than
20 the 2006. The 2012 adoption of the IECC, let's say
21 that's another 15 or 20 percent more efficient than
22 that. If we have systematically in the code renewal and
23 update process significant increases, rather than in the
24 old days we used to just get 2 or 3 percent every three
25 years in the next code, now we are getting 15 percent in

1 the '09 code and by 2012 I would expect at least another
2 15 percent, and there was a proposal in this last code
3 review process for a 30 percent, 30 percent solutions --
4 that did not pass; it didn't pass by less than five
5 votes in the major national coalition that developed
6 that code in that major conference -- so it may be that
7 the code process gives people something they can adopt.
8 And then it is up to our legislature and our towns and
9 communities to adopt those building codes, because it
10 does take load collection currently.

11 So in other words, one could perceive a scenario
12 in which good code policies were implemented in Arizona
13 that doesn't necessarily require leadership by the state
14 legislature. On the other hand, the state legislature
15 could step forward and, you know, create either
16 incentives or requirements for municipalities to adopt
17 updated codes or set a state-wide building energy code.

18 SWEEP's philosophy on this or our strategic
19 approach is we will get there one of those ways. I am
20 not sure which one is going to get us there the fastest
21 or the best. I am currently not relying on the state
22 legislature to update a state-wide building energy code.
23 We are working with code officials and local communities
24 and working with the national organization to get a good
25 code and then, you know, Phoenix and Glendale and

1 Chandler and Tucson and Flag and all those cities can
2 adopt it. And, you know, eventually we will get it.
3 That's more or less what happened with the 2006 one.

4 CHMN. MAYES: Okay. Please proceed.

5 MR. SCHLEGEL: Just a few other closing remarks
6 here for me in terms of the technical working group.

7 I think the homework assignment that you
8 requested at the last meeting, I have spoken with most
9 of the entities that have been working on that and have
10 done a little work myself. I do support the idea of a
11 technical working group to ensure, you know, reasonable
12 consistency in the format and input assumptions and the
13 analytical approach. I think that would benefit the
14 Commission in that you would see things compared on a
15 consistent and comparable manner which would also allow
16 you to focus on the things that you would like to learn
17 out of that.

18 I think some analytic aspects including the, you
19 know, the consistency of that framework and analytical
20 approach can start with all of the industries, electric,
21 gas and the co-ops. But some aspects of it are likely
22 and probably should be specific to electric, gas and the
23 co-ops because there are some aspects, as you have heard
24 today, that apply to, say, the co-ops differently than
25 they do the investor owned and apply to gas differently

1 than they do to electric. So I think it is important to
2 have one overall technical working group but allow some
3 subgroups to work within there.

4 On the other hand some aspects of what has been
5 discussed today and at the last workshop should be fully
6 integrated and coordinated. We should not allow
7 stovepiping or fiefdoms to be retained or to evolve.
8 And in particular there I am talking about the delivery
9 of services to customers.

10 When it comes, when it comes to customers
11 wanting service, they should see everything that the
12 Commission is doing and everything that the utilities
13 are offering as one program in the marketplace. We may
14 have 10 programs for regulatory purposes and they may
15 fit in various plants and whatever. But when it comes
16 to a customer, when a customer calls a utility or calls
17 a hot line or goes on the website, they should see, they
18 should get the full panoply, the full menu of services
19 available to them in a seamless and integrated manner.
20 They shouldn't have to call, you know, person A to find
21 out something about the existing home HVAC rebate and
22 person B to find out about the residential lighting
23 program. The energy efficiency program should be fully
24 integrated, and I mean fully integrated, including
25 electric and gas, so that if people have electric air

1 conditioning and gas heating, or some other way, we
2 should move to where those programs are fully integrated
3 in the delivery to customers.

4 And on top of that, we should coordinate the
5 delivery of the renewables programs. You know, they are
6 not exactly under the same umbrella in the regulatory
7 environment but when it comes to customers, you know, a
8 builder who wants to build near zero energy homes, we
9 should make it as easy as possible for that builder and
10 developer to get the services they need on the
11 efficiency side, on the analysis side, on the financial
12 side and then coordinate with the renewables so that
13 from the builder it looks like one offering, one
14 coordinated offering, instead of two or three different
15 programs.

16 In terms of the next steps, there were a number
17 of interesting questions today. And we went back and
18 looked at some of the materials that were presented and
19 discussed at the last meeting, including Staff's report.

20 SWEEP will commit to filing a resource guide
21 next week that takes some of the topics that you all
22 have raised and have been discussed here, everything
23 from what is a summary of what some of the utilities in
24 the Southwest are doing, SWEEP paper and a SWEEP
25 presentation on that.

1 What about performance incentives? We will
2 submit that LBL analysis. There is a paper by Val
3 Jensen that looks at a bunch of different analyses. And
4 we will get in front of you the links for the Colorado
5 and other state incentives so that's available to you.
6 There are some resource guides on exemplary programs.
7 We will have that on the resource guide.

8 What we have in mind here is something that is
9 accessible, maybe four pages with a few sentences about
10 what is in each document and then a website URL so that
11 people can go to the those specific topics where you are
12 looking for background information. I think that will
13 help both broaden the education and bring people more on
14 the same page. And to the extent that other parties or
15 Staff have things that they want to put on that guide,
16 we are happy to work with others to coordinate and make
17 a joint project, if that makes sense. We will draft
18 something and get it out to people and they can add.

19 In terms of the Commissioners, if you have
20 specific topics that you want to follow up on, let us
21 know and we will try to answer any of those questions.

22 The last thing I want to say about next steps is
23 we are hoping and looking and pleading to the Commission
24 for relatively timely action on this. We would prefer
25 to have some action on the energy efficiency standard in

1 the middle of this year. And as I said, I am not
2 exactly sure what the procedural options are. SWEEP is
3 looking at, Tim Hogan, our attorney, is looking at
4 procedural options in terms of how to get a matter
5 before the Commission that the Commission can take
6 action on. We are also looking --

7 CHMN. MAYES: Mr. Schlegel, I am, you know, as
8 you know, I am all for moving with alacrity, but is
9 there a particular reason that you want the Commission
10 to take action this summer as opposed to later this
11 year? Or, I mean, is there --

12 MR. SCHLEGEL: There is no one, Chairman Mayes,
13 there is no one event coming up in, say, the fall that
14 we need to have something done before that. I think our
15 desire is just to try to get --

16 The economy is probably the biggest single
17 reason we are interested in this. We see energy
18 efficiency as an important contributor to improving
19 Arizona's economy and recovering the economy. There are
20 obviously opportunities out there, and I think it would
21 be, it would be good for Arizona if the Commission could
22 lead and build up some energy efficiency because people
23 would be able to get back to work and customers, get
24 customers savings sooner. That's what is driving us.
25 If it takes longer, we obviously are patient, have been

1 patient and will continue to be patient.

2 But in terms of this process, though, we would
3 encourage the Commission to move forward, to not
4 necessarily wait for everything to be done in order to
5 move forward on a standard.

6 For example, I can perceive bifurcating the
7 issues in this docket so that the standard and the goals
8 are implemented soon, and some of the issues associated
9 with the goals such as, you know, performance incentives
10 and financial issues, some of which are being addressed
11 also in parallel cases, that we would hate to have
12 issues associated with the financials hold up the
13 Commission's adoption of a goal. We would encourage you
14 to move forward with the adoption of the goal because
15 that in and of itself will increase the programs and get
16 services out to customers, save energy and money for
17 customers and create jobs. And, again, that's our
18 motivation for moving forward in a more timely manner,
19 or timely manner.

20 And that concludes my comments.

21 CHMN. MAYES: Okay. In terms of -- well, an
22 interesting thing that you raise, Mr. Schlegel. You
23 know, I understand what you are saying. On the other
24 hand, there has been a couple states in the renewable
25 energy realm that have moved forward with standards and

1 targets, and I am thinking of New Mexico, that never
2 really moved forward with the funding necessary to get
3 there. So they have these sort of goals out there,
4 these standards out there, and yet they don't, you know,
5 they don't put their money where their mouth is. And
6 they have never stepped forward and found a way for
7 their utilities to meet those standards. So I certainly
8 wouldn't want us to get into that kind of situation.

9 I mean you are either, you are either for it or
10 you are against it. And, you know, as regulators we
11 have to be ready to step up to the plate, you know,
12 saddle up and do the right thing. And --

13 MR. SCHLEGEL: Chairman Mayes, I agree entirely.
14 And we are for it, as you know.

15 What I meant in terms of bifurcating, when we
16 recommend setting an energy efficiency standard, and we
17 would prefer standard than a goal, or perhaps, as I said
18 earlier, a standard in these percentages per year with a
19 specific table and a goal that's 20 percent by 2020 --
20 that may be how the two words evolve in the thinking in
21 Arizona, or it may be some other way -- but when we say
22 set a standard and set a target, we mean set a target
23 with the support, the funding supported and the policies
24 that are necessary to begin that ramp-up and to improve
25 the programs.

1 I think as you both know, SWEEP has at least six
2 different proposals on expanded improved programs. And
3 the sooner we can get a standard and some funding in
4 place and those programs moving forward the sooner those
5 programs can be implemented and the sooner the benefits
6 will come to people. So to us that's the first group of
7 things.

8 But when I said performance incentives and
9 financials, what I meant more is I think there will be
10 some discussions on performance incentives on the
11 recovery of, underrecovery of fixed costs, net lost
12 revenues. Those things we would not want see the
13 discussions delay the implementation of the standards
14 and funding necessary to support it.

15 CHMN. MAYES: So you think the Commission does
16 need to move forward with the funding piece in tandem
17 with the standard, but that some of the lost revenues
18 issues or decoupling or performance incentive issues
19 could lag?

20 MR. SCHLEGEL: They could lag if necessary.
21 Ideally, if people want to work hard and want to meet
22 each week and get this on the table, I think the ideal
23 process is to have all the issues done in one process.
24 Our only concern is, if the financial, the performance
25 incentives or the more difficult issues relating to

1 underrecovered fixed costs and decoupling and things
2 like that, if it takes some time to work through some of
3 those issues, then we would rather not have the perfect
4 be the enemy of the good. We would like to have the
5 good be done and move forward.

6 And that would -- that may or may not require
7 some bifurcation of the schedule. I would prefer not to
8 have that. But I am just alerting you that, you know,
9 the timeliness is important. The economy is not just
10 our issue. It is, if you look at, you know, the
11 stimulus money, there are significant requirements in
12 there for spending that money and for getting that money
13 out to customers. And these programs have an
14 opportunity to help do that.

15 I mean, what are we going to do with schools?
16 We don't currently have a positive cash flow on-the-bill
17 financing program for schools. How soon can we have
18 that? Well, it would be good to have it yesterday. We
19 certainly need to have it this summer if we could,
20 because schools are going to try and figure out what to
21 do by the start of the next school year.

22 CHMN. MAYES: Okay. Let's talk about that a
23 little bit. What is the status of SWEEP's on-the-bill
24 finance proposal vis-a-vis the major utilities in
25 Arizona?

1 MR. SCHLEGEL: SWEEP has made that proposal both
2 in this, in this workshop process and in some individual
3 cases before, which I am not going to speak to --

4 CHMN. MAYES: Okay, sorry.

5 MR. SCHLEGEL: -- just so you know.

6 CHMN. MAYES: I almost invited that. But I
7 appreciate that.

8 So it is still in the sort of development stage
9 and no utility has on its, sua sponte, on its own
10 motion, brought or is bringing that proposal to the
11 Commission? Because they could.

12 MR. SCHLEGEL: They could. And that's why we
13 put it in this workshop, because in this workshop there
14 is an opportunity. And your question invited this, what
15 programs are necessary, what programs can be expanded,
16 what new programs can be continued. We put forth a
17 list. I believe, in fairness, I believe all the
18 utilities are considering those programs, either
19 expansion or improvement or revisions or new in this
20 docket. And I assume they are looking at all those. I
21 don't think any of them have a specific proposal yet but
22 they could bring those proposals forward.

23 CHMN. MAYES: And just speaking from this
24 Commissioner's standpoint, I would be very interested in
25 seeing some utility in the State of Arizona bring this

1 Commission an on-the-bill finance application. And I
2 don't think anybody has got to wait to do that. So I
3 think it is a very, very critical and missing link in
4 our energy efficiency programs right now.

5 Okay. So if it is okay with everybody and with
6 my colleague, I would like us to take a five-minute
7 break, make it a 10-minute break. Then we will come
8 back and talk about where we go from here. Okay?

9 MR. SCHLEGEL: Thank you.

10 (A recess ensued at 2:39 p.m. to 2:55 p.m.)

11 CHMN. MAYES: Let's come back. Thanks,
12 everybody, for your patience. I just wanted to have a
13 little time to think about the proposal for going
14 forward.

15 And I think upon further reflection, it seems
16 appropriate for us to break out a couple of technical
17 working groups to do some additional fact finding and
18 discussion and consensus building hopefully in two
19 different areas. One would be cost recovery proposals
20 and discussion of the appropriate ramp-up of the
21 20 percent standard. The second would be incentives and
22 decoupling. And then what I think ought to happen is
23 the 13 issues, especially the issues sort of at the top
24 of that list, need to be discussed in those two working
25 groups.

1 And I am going to leave it up to Staff to, A,
2 lead those working groups here at the Commission, the
3 working groups, and to decide how these 13 items would
4 get apportioned between the two working groups. I think
5 some of it is sort of intuitive, but I will leave it up
6 to Mr. Johnson's able leadership to decide how that gets
7 apportioned between the two. And then Commissioners can
8 ask specific questions to both of those working groups.
9 Commissioners can attend those. The meetings themselves
10 will be led by Staff, but certainly it is my intention
11 for the Commission to remain involved during this phase
12 of the energy efficiency workshops.

13 And then what I would like to do with my
14 colleagues' indulgence is come back for another
15 overarching workshop session like the one we had today
16 and last month and hear the results of those two working
17 groups.

18 So how does that, how does that stand?

19 Commissioner Newman.

20 COM. NEWMAN: That sounds great, Madam Chairman.
21 I am sorry for my lateness. There was some, some
22 things. I was working the entire time, I can assure
23 you. I am sorry that I am late for the hearing.

24 The only thing I wanted to add in the incentive
25 workshop, and I don't want to raise the ire of anyone or

1 raise heckles on anyone's back, but I would like some
2 discussion of a feed-in tariff as well in the incentive.
3 That is my request, that at least that the Commissioners
4 be briefed on the issue of feed-in tariff. And I am
5 just very curious.

6 And that goes with the decoupling exercise as
7 well, which is, I don't know what category you put it in
8 it, but I would like some public discussion of that, and
9 from the participants as well as from Staff. It is
10 just, it is a question that I get from an awful lot of
11 folks. And I think that the Commission should study
12 that issue as well. That's my request.

13 I don't know if that's okay with you, Madam
14 Chairman, but at least I would like, I would like some
15 public discussion of the issue.

16 CHMN. MAYES: Okay. Are you talking about for
17 energy efficiency or for renewable energy?

18 COM. NEWMAN: Not for energy efficiency but
19 incentive.

20 CHMN. MAYES: Because this is specific to energy
21 efficiency.

22 COM. NEWMAN: I suppose. So maybe we have to do
23 a separate workshop on that. You don't think it is
24 jurisdictionally appropriate?

25 CHMN. MAYES: I don't know about

1 jurisdictionally appropriate. I don't know if it is
2 topically appropriate. But if somebody, if it has been
3 discussed in other states for energy efficiency --
4 Mr. Schlegel is shaking his head no.

5 COM. NEWMAN: Oh, okay.

6 CHMN. MAYES: But --

7 COM. NEWMAN: Then that was -- I jumped in
8 there. Maybe we will think of another time to discuss
9 it. But I, I would like to have some kind of
10 discussions about it at the appropriate time, perhaps
11 not in the energy efficiency mode. But I wanted to
12 bring up the subject partly because the last few months
13 that I have been here I have been getting questions
14 about it from different people in the community. And
15 that is more of a renewable energy topic, I do agree.
16 But it does, in my mind, fit in with the concept of
17 decoupling.

18 CHMN. MAYES: Okay. Mr. Johnson, did I -- is
19 there anything you would like to suggest or add to what
20 I laid out in terms of the technical working groups?

21 MR. JOHNSON: Madam Chairman, Commissioners, it
22 is probably only one thing. I think someone commented
23 regarding the relationship between renewable energy and
24 energy efficiency in terms of meeting that 20 percent
25 standard. So we might want to begin a dialogue and get

1 some input on that.

2 CHMN. MAYES: And I don't know what my
3 colleagues' preferences are on that issue. It is my
4 view that energy efficiency is not the same as renewable
5 energy. And I don't believe that an energy efficiency
6 target should be met with renewable energy. But that's
7 my view. If Staff and the parties want to discuss that
8 issue, that's fine. But from this Commissioner's
9 standpoint it is kind of a nonstarter. So I just, I
10 want to be up front about that.

11 I have thought about that issue for a long time.
12 I know it has been proposed in other states. I know it
13 is in fact part of the Nevada program. But it is, it is
14 a nonstarter for me. So I don't know if my colleagues
15 want to weigh in on that issue but...

16 COM. NEWMAN: Madam Chairman, I will take your
17 direction on that. I do, I do know that we should
18 concentrate on energy efficiency in this workshop. And
19 I am very happy that Madam Chairman has taken the lead
20 on cutting this into study groups. And I think that is
21 the right way to go.

22 And I threw in the feed-in tariffs thing because
23 sometimes in the discussion of decoupling people talk to
24 me about feed-in tariffs. And the nexus between
25 renewables and energy efficiency is talked about in

1 literature. It is talked about in energy -- in the
2 industry as a bridge to renewables. So sometimes it is
3 hard to know where to, where the dividing line is.

4 CHMN. MAYES: Right. And my opposition to doing
5 that, you know, for instance, that was a part of the
6 awful piece of legislation that was proposed at the
7 legislature to count both nuclear and energy efficiency
8 toward the renewable energy standard, truly --

9 COM. NEWMAN: I don't want to go there.

10 CHMN. MAYES: Yes, I don't believe we want to go
11 down that path. I do understand what Mr. Hughes said
12 and I want to be sensitive to the needs of the co-ops
13 and any differences that might exist between the co-ops
14 and the IOUs in the same way we were sensitive in
15 crafting the renewable energy standard.

16 So I think it is appropriate for us to find, if
17 there are significant differences in their capabilities
18 with regard to energy efficiency, then I think within
19 reason the Commission should provide some forbearance,
20 or consider some forbearance. But, you know, I think
21 that's a, that's, you know, a bridge too far, counting
22 energy efficiency as renewable energy or and renewable
23 energy as energy efficiency or vice versa.

24 But, again, that's just me. If folks want to
25 discuss it, that's fine. And I am not beyond, you know,

1 beyond being persuaded on most things but this thing I
2 thought a lot about, so...

3 And then also I know, I know we talked a little
4 bit today and actually included in the notice for this
5 workshop is the discussion of new programs and new
6 programs that need to go forward this year. So I would
7 like the issue of on-the-bill financing as well as
8 direct install, a new direct install program to be
9 discussed; although, it may not be something that the
10 technical working groups should address off the top.
11 But just, as we move forward, I don't want to lose sight
12 of those issues.

13 COM. NEWMAN: Madam Chairman, just, I have
14 gotten a lot of questions about chronology as well.
15 Folks are interested in how this will develop. I missed
16 your opening remarks, but did you mention anything about
17 timing on working groups and when they come back? I am
18 sure they are curious as well.

19 CHMN. MAYES: Yes. And I think what we want to
20 do is have these working groups report back to us by the
21 last week of April. There is some disagreement. We are
22 still working through if we had set a meeting date or
23 not. But what I am hoping, we will set our next big
24 workshop meeting date for the two breakup groups to
25 report to us, let everybody know when that date is,

1 probably be the third week of April or first week of
2 May. But that was the notion, Commissioner Newman, is
3 we move forward with that in mind.

4 COM. NEWMAN: Thank you.

5 CHMN. MAYES: Okay, great. All right. Well, I
6 guess we are going to get done a little early today.
7 Happy Friday. I guess the Wildcats play in about an
8 hour.

9 COM. NEWMAN: Go Wildcats.

10 CHMN. MAYES: I am not a Wildcat.

11 COM. NEWMAN: I am. I am a rabbit.

12 CHMN. MAYES: I know you are. But I'm rooting
13 for the Arizona team. I don't know if they have much of
14 a chance. Your kid goes to ASU, so...

15 MR. SCHLEGEL: Yes, he does.

16 CHMN. MAYES: We are adjourned.

17 (The proceedings concluded at 3:05 p.m.)

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1 STATE OF ARIZONA)
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 2 COUNTY OF MARICOPA) ss.

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I, COLETTE E. ROSS, Certified Reporter No. 50658 for the State of Arizona, do hereby certify that the foregoing printed pages constitute a full, true and accurate transcript of the proceedings had in the foregoing matter, all done to the best of my skill and ability.

WITNESS my hand this 31st day of March, 2009.



 COLETTE E. ROSS
 Certified Reporter
 Certificate No. 50658

ARIZONA CORPORATION COMMISSION
Information for Public Comment Meeting

PLEASE PRINT CLEARLY

Date: 3/27/09 Telephone No. 480-218-4441

Name: ROBERT HOSKINS / FRONT PAGE PR, INC

Street Address: 2844 E MICHELLE WAY

City: GILBERT State: AZ Zip: 85234

I WOULD like to speak

OPPOSED

I do NOT want to speak RIGHT NOW

IN FAVOR

Comments: BUT, IF MARKETING QUESTIONS ARISE THAT CANNOT
BE ANSWERED BY ANYONE ELSE, I WILL BE AVAILABLE TO
ANSWER QUESTIONS ON TARGET MARKETING/SUCCESSFUL DSM
PROGRAMS
*****THREE MINUTES SPEAKING LIMIT*****
OUR SOLAR EVENT LAST NIGHT WAS ATTENDED
BY 400 ATTENDEES ~~FOR~~ SOLAR WATER/SOLAR ENERGY

ARIZONA CORPORATION COMMISSION
Information for Public Comment Meeting

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Date: 3/27/09 Telephone No. 928-402-8693

Name: MALISSA BUZZAN

Street Address: 5515 S APACHE AVE SUITE 200

City: GLOBE State: AZ Zip: 85501

I WOULD like to speak

OPPOSED

I do NOT want to speak

IN FAVOR

Comments: I AM A WEATHERIZATION
MANAGER FOR GILA COUNTY AND WOULD
LIKE TO SEE MORE ~~OF~~ OF THAT FOR THE LOW INCOME
*****THREE MINUTES SPEAKING LIMIT*****

ARIZONA CORPORATION COMMISSION
Information for Public Comment Meeting

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Date: 3.27 Telephone No. 602 343 1805

Name: PAUL WALKER

Street Address: 40 N. CENTRAL, 14TH FLOOR

City: PHX State: AZ Zip: 85004

I WOULD like to speak

OPPOSED

I do NOT want to speak

IN FAVOR

Comments: _____

*****THREE MINUTES SPEAKING LIMIT*****

ARIZONA CORPORATION COMMISSION
Information for Public Comment Meeting

PLEASE PRINT CLEARLY

Date: 3/27/09 Telephone No. 928 282 2690

Name: JOHN NEVILLE

Street Address: 49 PIAON CT

City: SEDONA State: AZ Zip: 86336

I WOULD like to speak

OPPOSED

I do NOT want to speak

IN FAVOR

Comments: ANDY STEPHENS HAS FULL PRESENTATION

*****THREE MINUTES SPEAKING LIMIT*****

Arizona Corporation Commission
Information for Open Meeting
PLEASE PRINT CLEARLY

Date 3/27/2009 Agenda Item No. _____
Name DON STONERBERGER Title _____
Representing (Group Affiliation) FREEMONT-McMORAN COPPER & GOLD
Street Address ONE NORTH CENTRAL AVENUE
City PHOENIX State AZ Zip 85004
Telephone No. 602 366 8370

I am in favor

I oppose

I would like to speak

Comments: _____

☺ THREE MINUTE SPEAKING LIMIT ☺