Grand Canyon State Electric
Cooperative Association, Inc.

Your Touchstone Energy® Cooperatives

May 26, 2009

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

Re: *Cooperatives' Comments on Gas Energy Efficiency*
(Docket Nos. E-00000J-08-0314 & G-00000C-08-0314*)*

Dear Sir/Madam:

At the May 21, 2009 Arizona Corporation Commission Workshop on Energy Efficiency ("EE"), Staff requested that interested parties file comments on the issues raised at this Workshop and proposed EE rules for gas utilities.

The following comments/rules are provided by Duncan Valley Electric Cooperative, Inc. Gas Division ("Duncan"); Graham County Electric Cooperative, Inc. ("Graham"); and Graham County Utilities ("Graham Utilities") (collectively, "Cooperatives") on the EE rules for gas utilities.

120 North 44th Street, Suite 100 • Phoenix, Arizona 85034 • 602/286-6925 • Fax 602/286-6932 • www.gcseca.org

Sincerely,

GRAND CANYON STATE ELECTRIC
COOPERATIVE ASSOCIATION

By ______________________
John V. Wallace

Original and fifteen (15) copies of
Electric Cooperative's Comments
filed this 26th day of May, 2009
with:

DOCKET CONTROL
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

ELECTRIC COOPERATIVE COMMENTS

ON ENERGY EFFICIENCY FOR GAS AND ELECTRIC UTILTIES

(DOCKET NOS. E-00000J-08-0314 & G-00000C-08-0314)

May 26, 2009

Introduction

At the May 21, 2009 Arizona Corporation Commission Workshop on Energy Efficiency ("EE"), Staff requested that interested parties file comments on the issues raised at this Workshop and proposed EE rules for gas utilities.

The following comments/rules are provided by Duncan Valley Electric Cooperative, Inc. Gas Division ("Duncan"); Graham County Electric Cooperative, Inc. ("Graham"); and Graham County Utilities ("Graham Utilities") (collectively, "Cooperatives") on the EE rules for gas utilities.

General Comments

While the Cooperatives are committed to increasing the amount and scope of their EE programs, they believe it is not realistic to achieve a 1.5 percent annual savings or 20% by 2020. Both Graham Utilities (approximately 5,000 customers) and Duncan (approximately 750 customers) are small utilities that do not have any EE programs. Once the EE Rules have been approved Commission, it will be necessary for these Cooperatives to hire a consultant to determine the type, costs and benefits associated with gas EE programs.

Given the fact that EE programs are voluntary, Cooperatives cannot force members to reduce their energy usage or stop them from increasing their load for whatever reason the member chooses to do so. Arizona cooperatives already have lower average residential sales than cooperatives across the country. In addition, gas utilities have fewer opportunities for EE programs and savings given the fact that the four main gas appliances can only be made marginally more efficient (gas furnace efficiency can only be increased from approximately 85 to 95 percent).

As the case with the REST Rules and New Mexico Legislation and Rules, one set of EE goals is not appropriate for all utilities. The Cooperatives believe that each cooperative needs to have a goal that reflects its specific service territory and characteristics including customer composition, age of commercial and housing stock, economic wealth, etc. For example, the Cooperatives customer mix is approximately 95 percent residential which is a higher percentage than Investor Owned Utilities ("IOUs"). Residential EE programs tend to be more expensive than commercial programs. Therefore it will cost more for the Cooperatives and their members to achieve the same EE goals as IOUs. For these reasons and the reasons identified in previous Cooperatives' comments on EE, the Cooperatives would propose the following provision in the EE Rules.

Cooperatives' Proposed Energy Efficiency Rules Provision

A. Beginning June 1, 2010 or within 120 days of the effective date of these rules, whichever is later and every year thereafter, every electric distribution cooperative that is an Affective Utility shall file with Docket Control an appropriate Implementation Plan for Energy Efficiency programs for the next calendar year. The cooperative shall also transmit an electronic copy of this plan that is suitable for posting on the Commission's web site to the Director of the Utilities Division. The Implementation Plan will include:

a. A description of the utility's compliance with the requirements of the Energy Efficiency Rules for the previous calendar year

b. A plan that describes how the utility intends to comply with the rules for the next calendar year, including necessary adjustments to the adjustor mechanism

Upon Commission approval of this plan, its provision shall substitute for the 1.5% annual requirement for the cooperative proposing the plan.

B. Such plan specified in A. above will set forth an Energy Efficiency goal as a percent of sales from the base year 2009 sales.

C. The Commission will adopt modifications to the utility's adjustor mechanism that will become effective on January 1st of the following year.

D. This process will replace and supersede any existing current Demand Side Management processes and/or compliance filings

E. Energy Efficiency Rules will include waiver provisions similar to the Renewable Energy Standard Rules.

F. Gas distribution cooperatives that have fewer than 50 percent of their customers in Arizona shall not be subject to the EE Rules.

The above provision would allow the Cooperatives to file EE plans with goals that are appropriate for their service territories. The Cooperatives' have not been able to estimate the increase customers' bills that will be necessary because they currently have not hired a consultant to conduct the research to determine the types, costs, benefits of gas EE programs. As stated by Southwest Energy Efficiency Project ("SWEEP") in their comments provided at the May 20 EE Workshop, any EE reporting to the Commission that is required in addition to the annual report described above should be in the form of a one page summary report.

ELECTRIC COOPERATIVE COMMENTS

ON ENERGY EFFICIENCY FOR GAS AND ELECTRIC UTILTIES

(DOCKET NOS. E-00000J-08-0314 & G-00000C-08-0314)

May 26, 2009

1. **Should the Commission adopt an EE goal for gas utilities that is less than the 15 percent versus 20 percent EE kWh savings goal by 2020 that is being considered for electric companies?**

   Cooperatives' Response: *The Cooperatives believe that it is not possible to predict whether a 15 percent and a 20 percent goal are even achievable. It is also not possible to accurately estimate the customer participation levels associated with voluntary EE programs, the costs associated with EE programs, customer growth, etc. for the next ten years. As outlined above, the amount of energy efficiency that is possible given the nature of gas appliances and their uses is limited. That being said, a 7.5 percent goal that has been proposed by TEP that is achieved from utility EE programs is definitely more reasonable than a 15 to 20 percent goal that expects some percentage to come from changes to building codes that are outside the control of utilities.*

2. **Expensing Versus Capitalizing EE Expenditures**

   Cooperatives' Response: *The Cooperatives would prefer to expense and not capitalize the expenses associated with EE program for the following reasons. Cooperatives need the ability to recover EE program costs in a timely fashion as these costs occur since they do not have the budgets or cash flow for EE programs.*

Typically, cooperatives can not borrow long-term funds from lenders for expense items. In addition, if EE expenses are capitalized, these costs will be higher to customers over time because it will be necessary to recover an interest component in addition to the EE program costs.

3. Decoupling Trackers, Lost Revenue Adjustment Clauses, Rate Structure, Revenue Caps and Utility Retention of Cost Reductions

Cooperatives' Response: *The Cooperatives would prefer a straight fixed-variable rate design to Decoupling Trackers, Lost Revenue Adjustment Clauses, Revenue Caps and Utility Retention of Cost Reductions because the majority of the Cooperative's distribution costs are fixed, earnings tend to be more stable and ease of calculation and explanation. In Graham Counties case, under the straight fixed-variable approach the present residential monthly customer charge would need to increase by approximately $8.34 from $10.50 to $18.85 while the per therm rate would decline by $0.234 from $0.825 to $.591. The current commercial monthly customer charge would need to increase by approximately $69.34 from $18.00 to $87.34 while the commercial per therm rate would decline by $0.24 from $0.831 to $.590. As discussed further in response to No. 4. below, the $0.234 is the amount per therm that Graham Utilities collects through its residential per therm rate for fixed distribution costs. For each residential therm that is saved through EE, Graham Utilities loses $0.234.*

However if a straight fixed-variable rate structure will not be adopted by the Commission then the Cooperatives would propose that they be allowed to estimate the amount of fixed costs and margins associated with per therm of EE savings and file such amount and recover such amount from all customers through a per therm charge in addition to the EE program costs through the EE surcharge as a part of their EE plans. If recovery of these costs is through the EE surcharge, as a part of determining its EE surcharge amount, each cooperative would make a calculation of its fixed costs and margins divided by its total therms sold. The Cooperatives would then be able to recover this amount per therm saved from EE programs. In the case of Graham Utilities, this amount would be $0.234 per therm.

For reasons of revenue and financial stability and because the majority of a distribution cooperative's costs are fixed in nature, the Cooperatives believe that the best approach to dealing with revenue and margin losses is through the use of some sort of revenue decoupling mechanism.

The Cooperatives are not aware of any studies that have been conducted on EE performance incentives for Cooperatives but are aware that studies that have been *conducted in Colorado and other states involve IOUs which operate under a different business model. IOUs operate under an incentive structure designed to increase profits/margins which ultimately flows through to share holders as dividends or higher share prices. Instead of a profit incentive, the cooperative business model in based on accumulation of margins which if not retained for improving or expanding electric service for its customer members is returned to its customers through patronage dividends/refunds on the basis of the amount of business conducted with the cooperative.*

Finally, utility retention of cost reductions is not an incentive to Cooperatives since Cooperatives are mainly interested in recovering their costs associated with EE programs while preserving recovery of their fixed costs and margins.

4. Addressing Fixed Cost Recovery in EE Rules

Cooperatives' Response: *While there may be some dispute over the magnitude, all parties have agreed that utilities will experience revenue erosion and not recover their fixed cost from adopting EE measures. To expect the utilities to agree to aggressive EE goals and time frames, without addressing one of the largest concerns of the utilities is inequitable to the utilities. The Cooperatives would urge the Commission to spend the time now to address the fixed cost recovery issues so that total costs of* *meeting the EE Standard can be quantified. If the Commission proceeds without addressing this critical issue, it will be basing its decision to proceed with an EE Standard and Rules without the benefit of having critical, cost-related information.*

In Graham Utilities case, assuming a 1.5% EE standard and annual per therm sales of approximately 3 million, it would need to decrease per therm sales by 45,000 per year. Assuming Graham Utilities could accomplish a 1.5% reduction, the fixed distribution cost recovery would decline by $10,540 each year that these EE measures are in place (the fixed distribution portion of Graham Utilities per therm rate or the $0.234 identified previously times the 45,000 therms) Assuming a 20% standard applied today, Graham Utilities fixed cost recovery would decline by $140,500 each year that these EE programs are in place (the fixed distribution portion of Graham Utilities per therm rate or the $0.234 identified previously times the 600,000 therms).

To put this in perspective, Graham Utilities currently only has annual revenues of approximately $3.7 million with the fixed-cost/margin portion being $1.3 million and cost of purchased gas totaling to approximately $2.4 million of this amount.

Merely having language included in the EE Rules stating that utilities may file for fixed-cost recovery as a part of their EE Implementation Plans does not give the utility any assurance that these costs will be recoverable. There have been several proposals made by utilities on how to address fixed cost recovery, (the most recent being made by Tucson Electric Power Company ("TEP") at the May 20 EE Workshop) that the Cooperatives would support that would allow the utility to recover the fixed-costs associated with the kWh saved from EE programs. Another approach would to be include the following provision in EE Rules:

> *In addition to the adjustor to collect EE program costs, Cooperatives shall be able to recover the distribution fixed costs and margins associated with therm savings that result from EE programs. Such costs will be calculated by determining the distribution fixed-cost portion of the therm rates in each cooperative's tariffs. Such amount will be multiplied by the lifetime therm energy savings of each EE program. The product of these amounts would be divided by the total therms sold for the year to determine fixed-cost and margin surcharge.*

SWEEP's "Three-part performance incentive" included in its comments at the May 20 Workshop do not address the Cooperatives concerns on fixed-cost recovery and are designed to provide incentives for IOU's not cooperatives.

5. Monetizing Externalities for the EE Standard

Cooperatives' Response: *Given the controversial nature of the assumptions that must be made to monetize environmental externalities, it is unlikely that the parties will come to a consensus on the assumptions, calculations or amounts for environmental externalities within the current time frame that the Commission outlined for the completion of the EE Rules. If the Commission believes it is necessary to address environmental externalities, it should do so in the broader context of preparing Resource Planning Rules.*