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March 26, 2010

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

Re: *Arizona Investment Council ("AIC") Comments on Utility Disincentives and
Decoupling for Arizona Utilities; Docket Nos. G-00000C-08-0314 and
E-00000J-08-0314*

Dear Sir or Madam:

In response to Chairman Mayes' February 23, 2010 letter, the AIC files the original and 15 copies of its comments and input regarding utility disincentives and decoupling. Your assistance in relation to this matter is appreciated.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

By:

Michael M. Grant

MMG/plp
18762-1/2413200

Attachment

Original and 15 copies filed with Docket Control this 26th day of March, 2010.

Arizona Corporation Commission
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Arizona Investment Council
Responses to
Arizona Corporation Commission Notice of Inquiry Regarding Utility Disincentives
and Potential Decoupling for Arizona Utilities: Docket Nos. G-00000C-08-0314 and
E-00000J-08-0314

In a letter dated February 23, 2010, Chairman Mayes invited interested parties and stakeholders to provide comment and input regarding utility disincentives and decoupling. The letter also references the Commission's pending Energy Efficiency Standard rules, which would require a 22 percent energy efficiency result by the year 2020.

AIC has been a consistent advocate of decoupling, having urged the Commission to implement decoupling in several recent dockets before the Commission, including comments in these dockets. Additionally, AIC provided comments in support of decoupling in the Commission's pending electric utilities energy efficiency rules (Docket No. RE-00000C-09-0427) and also sponsored the testimony of Dr. Daniel Hansen¹ in the last Southwest Gas Corporation rate case which recommended specific decoupling mechanisms (Docket No. G-01551A-07-0504).

Finally, AIC's white paper entitled "Streamlining Administrative and Ratemaking Processes of the Arizona Corporation Commission" was distributed to Commissioners and the ACC Staff in early 2008. That report contained AIC's recommendation that the Commission implement decoupling mechanisms in relation to conservation efforts (pp. 36-43, attached as Exhibit A).

The Commission should expeditiously implement decoupling for two important reasons. First, to meet the Commission's own ambitious expectations on energy efficiency, financial disincentives which companies have to sell less of their product must be removed. Under current ratemaking standards, a portion of earnings and recovery of fixed costs are tied to volumetric sales. Decoupling removes the link between sales, earnings and fixed cost recovery and thus removes the disincentive to engage in conservation programs. Second, given Commission mandates to meet aggressive, constant efficiency standards, absent perpetual rate cases, utility companies will not have any realistic opportunity to earn authorized return levels. As a result, Arizona gas and electric utility companies will be severely hamstrung in the State's effort to attract investment capital.

¹ Dr. Hansen previously conducted independent evaluations of decoupling mechanisms in place at Northwest Natural Gas, New Jersey Natural Gas, and South Jersey Gas. He also assisted the Utah Division of Public Utilities in evaluating Questar Gas Company's decoupling mechanism.

AIC offers the following responses to the Commission's inquiry.

1. What financial disincentives to utilities are created by the implementation of energy efficiency standards?

Answer:

Two types of financial disincentives are created: First, because a portion of the companies' fixed costs is recovered through volumetric rates, sales reductions from meeting energy efficiency standards preclude companies from full recovery of their costs and rapidly degrade earnings. There is no realistic opportunity to earn the authorized rate of return. As a result, Arizona energy utility companies are at a sustained and significant disadvantage in attracting investment capital.

Second, the costs of implementing demand reduction programs will become increasingly expensive and may not be effective in reducing demand given customer tastes and preferences as well as technological developments which drive energy consumption. Although the ACC generally allows utility companies to recover program costs, the companies face the cost risk of potentially ineffective demand reduction programs. Correspondingly, a related disincentive results if companies cannot recover program costs in a timely manner.

2. Should the Commission consider a decoupling or decoupling-like mechanism that would allow Companies to recover weather-adjusted fixed costs that are lost as a result of energy efficiency programs that drive conservation? If so, why?

Answer:

The Commission should adopt a decoupling mechanism that allows Companies to recover lost revenues resulting from energy efficiency programs. It is unclear what the Commission means by "weather-adjusted" fixed costs. Fixed costs are just that – fixed – and are not affected by weather. Fixed costs remain under normal or abnormal weather conditions. However, the revenues collected to recover some fixed costs are based on volumetric sales. While the primary motivation for decoupling is to remove the utility's disincentive to promote conservation and energy efficiency, a properly structured decoupling mechanism can also reduce the weather-induced variability in utility revenues **and** customer bills. For example, an unusually cold winter month results in both an increase in natural gas utility distribution revenues and an increase in customer bills. A decoupling mechanism that removes the utility over-recovery in that month will also eliminate the customer over-payment for fixed distribution costs.

3. If you believe the Commission should adopt such a mechanism, how should it be structured?

a. Should certain customer classes be exempt?

Answer:

Given the Commission's ambitious energy efficiency standard, decoupling should apply to all customer classes for most utility companies. Inclusion of all customers in decoupling will remove disincentives for the companies to work with any customer class to encourage energy efficiency. However, large commercial and industrial customer classes could be exempted from decoupling. This might be most appropriate for those utility companies with relatively few of these customers.

4. How should weather-related changes in customer usage be treated? Should they be excluded and if so, how?

Answer:

The Commission should adopt a separate weather normalization mechanism that calculates customer-specific bill adjustments so that each customer's bill is based on usage under normal weather conditions (for only the fixed-cost portion of the bill, *e.g.*, distribution costs for a natural gas utility). The decoupling mechanism should not contain any weather-based adjustments to deferrals. Combining decoupling and weather normalization mechanisms removes the utility's disincentive to promote conservation and reduces weather risk for the utility and its ratepayers. AIC recommends the Commission adopt the weather normalization adjustment mechanism proposed by Southwest Gas Corporation and supported by the AIC in Docket No. G-01551A-07-0504.

5. What mechanism should be used for recovery of un-recovered fixed costs associated with energy efficiency? What are your views of utilizing a deferral mechanism but requiring that accumulated costs be amortized over several years, if deferrals were large?

Answer:

AIC's recommended decoupling mechanism is described in the answer to question number 10. Accumulating costs associated with a decoupling mechanism for recovery over a specific period of time is appropriate in administering a decoupling mechanism. An important caveat, however, is that the deferrals not be allowed to grow to a large size or be accumulated over a particularly long period. In addition, the utility should earn a carrying charge on the amortized deferrals.

- a. **If the Commission was to adopt decoupling and use a deferral mechanism, how should usage related to new customer additions be treated during the deferral period, i.e. should it be excluded or included?**

Answer:

Usage related to new customers should be included within the decoupling mechanism. By including new customer usage, the utility companies have incentives to encourage energy efficient new construction. For example, each new home includes appliances (water and space heaters) used for many years. Incentives must be aligned so that the utility is not harmed by, for example, encouraging customers and builders to install energy efficient appliances. AIC believes the administrative burdens associated with separating customer additions from other customers when calculating deferrals would be overly burdensome and unproductive.

- b. **Should both programmatic and non-programmatic energy savings be included in the deferrals? If so, how should non-programmatic energy savings be measured and verified?**

Answer:

Both programmatic and non-programmatic energy savings should be included. There should not be a requirement to precisely measure non-programmatic energy savings, as doing so may limit the range of energy efficiency programs that the utility would support. For example, web-based information programs can assist customers in conserving energy, but measuring or tracking these energy savings isn't possible. In addition, a decoupling advantage relative to alternatives such as lost revenue adjustments (that only compensate the utility for lost revenues associated measured and verified usage reductions associated with utility-sponsored programs) is that decoupling does not require measurement and verification, which can be contentious and lack precision. Disputes over measurement of usage reductions can reduce the utility's incentive to promote energy efficiency, because there is no certainty the measurements will adequately compensate for lost revenues.

6. **What features can be adopted as part of a decoupling proposal that would prevent the Company from over-earning, and address concerns that decoupling proposals necessarily mean deviating from the "matching principle"?**

- a. **Should the Commission consider a "cap on earnings" as part of its approval of a decoupling plan?**

Answer:

AIC believes a cap on earnings is unnecessary, because over-earning is exceptionally unlikely given escalating costs and the future investment

requirements of Arizona utility companies. However, should the Commission place a cap on earnings related to a decoupling mechanism, it should be no lower than the most recent authorized rate of return.

- b. Should a lower Return on Equity be adopted when considering rate cases for decoupling Companies to recognize that such companies may incur less risk compared to non-decoupled companies?**

Answer:

The introduction of decoupling will alter the utility's risk profile, but in a manner that is very difficult to quantify. For example, while decoupling protects the utility against revenue shortfalls, it also prevents it from experiencing a revenue surplus. Because the change in the utility risk is so difficult to quantify, AIC believes that the only feasible method for addressing the risk issue is by comparing the allowed ROE to a sample of decoupled utilities or utilities with equivalent mechanisms such as straight-fixed variable pricing.

- c. Should the Commission require that Companies' decoupling mechanisms and deferrals be reviewed after some period of time, i.e., after three years of operation, unless the Company comes in for a rate case sooner?**

Answer:

A review after several years can ensure that the program is functioning as intended. In particular, it would be unwise to allow the deferrals to reach unacceptably high levels that might require amortization and recovery over a long time horizon.

- 7. Please state whether the information provided in the Revenue Decoupling Data Report filed in compliance with Decision No. 70665 supports or argues against revenue decoupling in the case of natural gas companies.**

Answer:

The Revenue Decoupling Report filed in compliance with Decision No. 70665 shows a modest effect on customer bills over the six-year historic period of the analysis. However, this modest increase in customer bills due to the decoupling mechanism would likely be more than offset from the benefits of bill reductions through additional conservation. For example, the median residential customer would have paid a *total* of \$3 more with decoupling over the six-year period.² Assuming a gas cost of \$0.75 per therm, the median residential customer would only have needed to have conserved a total of four (4) therms over the six-year period in order to have compensated for the effect of the decoupling deferrals. The Commission's pending Energy Efficiency Standard rules contain much more ambitious conservation goals than this, demonstrating it is reasonable to expect total customer bills to decrease if these conservation efforts are combined with decoupling. AIC believes the significant benefits available to customers who conserve supports decoupling for natural gas companies.

² This is calculated as the sum of the per-month bill impacts in Table 1 (page 5) multiplied by 12.

8. What disincentives to customer conservation may be caused by virtue of the adoption of decoupling or decoupling-like mechanisms?

Answer:

None. As AIC witness Hansen testified in the Southwest Gas rate case, customer-level incentives are not affected by decoupling. Dr. Hansen testified that decoupling has no effect on an individual ratepayer's incentive to conserve energy and may actually increase the customer-level incentive to conserve. According to Dr. Hansen's testimony, "(a)ny *one* customer who conserves energy promptly receives the full reduction and corresponding conservation signal . . . on his or her current bill. It's only in the next year that customer "repays" an imperceptibly small portion of it through the . . . (decoupling) deferral."

Dr. Hansen also points out that even if an individual customer perceives his or her rate will go up the following year due to the conservation of other customers, the expected increase in price could provide an added incentive for that individual customer to conserve more in an effort to mitigate the potential of a higher bill.

9. Are price signals to consumers skewed by decoupling, and if so, how?

Answer:

No. Each customer faces the full incentive to conserve, because the effects of its conservation (*i.e.*, recovery of deferrals) are spread over all other customer usage. The incentives for any one customer are different than the incentives that the customer class appears to have. For the customer class, the benefits of conservation may be reduced because the fixed cost portion of the rate is repaid in future years. But, for the individual customer, the incentive to conserve and hence lower his/her bill remains strong under decoupling. In fact, the ability to maintain the customer-level conservation incentive is a key benefit of decoupling relative to an alternative method of removing the utility disincentive to promote conservation known as straight-fixed variable ("SFV") pricing. Under SFV pricing, all fixed costs are recovered through fixed charges (*e.g.*, monthly customer charges). Moving toward SFV, therefore, requires a reduction in the volumetric rate (removing all fixed cost recovery from it), reducing the customer-level incentive to conserve. Conversely, decoupling retains the full customer-level incentive to conserve that is in current rates.

10. What type of revenue decoupling mechanism is appropriate for Arizona or does it vary by company and with different facts?

The most appropriate revenue decoupling mechanism varies by company based on company-specific drivers of fixed costs. The one key feature that AIC believes all decoupling mechanisms should share is that they allow for the full recovery (for the utility) or refund (to the ratepayers) of the difference between allowed revenues and actual revenues. Deferrals should be tracked on a monthly basis and passed through rates at least annually.

Decoupling mechanisms may differ in the way in which allowed revenue is calculated. Ideally, allowed revenue would adjust over time to account for

changes in utility fixed costs that are beyond the utility's control. Possible examples include a change in the number of customers served or general inflationary effects. Designing the mechanism in this way reduces the potential controversy associated with the size of the deferrals and can increase the length of time between rate cases.

The simplest form of decoupling that can be generally applied is a revenue-per-customer decoupling ("RPCD") mechanism. RPCD allows the utility to recover a fixed amount of revenue for each customer served. If customers leave (join) the system, allowed revenues go down (up). If the existing customers use less (more) energy, the decoupling mechanism will increase (decrease) future rates to bring utility revenues up (down) to allowed revenues. RPCD, therefore, effectively removes the utility's disincentive to promote energy efficiency.

However, RPCD may not be ideal if the utility's level of fixed costs is not strongly related to the number of customers served. For example, consider a utility with a service territory that has little potential for growth. In this case, RPCD may under-compensate a utility over time if utility costs are increasing with inflationary factors. In this case, allowed revenue (or revenue per customer) could be tied to an index of utility costs. Because the utility has no control over the level of the cost index, designing the decoupling mechanism in this way does not reduce the utility's incentive to control its costs.

Because the drivers of utility fixed costs can vary across utilities, the "best" decoupling mechanism should be determined on a case-by-case basis.

11. Should the Commission impose penalties for failure to meet specific designated DSM goals? Should the opportunity to have periodic rate adjustments be tied to meeting specific energy efficiency requirements?

Answer:

No. Rather than imposing penalties, the Commission should require the utility companies to offer a range of conservation and energy efficiency programs. These programs should be submitted to program evaluations to ensure that they are well run. However, the pitfalls of tying deferrals or penalties to measured conservation outcome are described in our answer to Question 5b. That is, the range of conservation programs may be limited and contentiousness over measurement methods and outcomes may re-introduce a disincentive for the utility to promote conservation.

Some programs will be more successful than others due to a range of factors, several of which are beyond the companies' control, including customers' willingness or ability to conserve. Once the Commission has authorized decoupling for a utility company, the company should demonstrate to the Commission that its corporate culture has elevated to embrace these energy efficiency objectives.

12. What means should be employed to track conservation associated with specific DSM programs for purposes of evaluating the success of decoupling?

Answer:

None. Tracking specific levels of conservation to specific DSM programs for the purpose of justifying decoupling is likely to be overly burdensome, costly and non-productive. Moreover, tracking of specific programs is unnecessary to measure the success of decoupling in achieving conservation. If the Commission chooses to gauge the success of programs, an alternative approach would be to evaluate particular DSM programs on the basis of whether they have been administered and operated efficiently.

13. What mechanisms are needed to assure data quality and accuracy of forecasting customers, usage and utility driven energy efficiency savings?

Answer:

Typically, the Commission requires data and information to be submitted to the Commission for its review. The Commission Staff uses standard methods of review, including requests for supplemental information, to gauge the quality and accuracy of the company data submissions. The Commission must determine what data and supporting documentation is needed from the companies to enable its Staff to conduct a proper review.

14. Should decoupling mechanisms include a low-income component?

Answer:

No. Concerns about low-income customer assistance can be addressed through specific DSM programs (*e.g.*, low-income weatherization) or by explicitly subsidizing qualifying low-income customers. The rate effects of decoupling are anticipated to be relatively small, unlike other conservation ratemaking alternatives such as increasing the standard fixed rate, which would have a sizeable and regressive rate impact for low-income customers.

a. Should utility energy efficiency programs be structured to align costs and benefits among rate classifications?

Answer:

Perhaps, but such alignment should not affect the decoupling mechanism adopted by the Commission.

15. What additional issues should the Commission consider when addressing utility disincentives to implementing its Energy Efficiency requirements?

Answer:

A similar impairment to recovery of fixed costs results from the Commission's requirement that electric utility companies meet an increasing percentage of their resource mix from distributed generation sources, such as rooftop solar. The companies incur costs to connect DG customers to the electric grid and are required to make system-wide investments to serve them should they return as full-requirements customers. However, due to lost sales to DG customers, the companies will be unable to fully recover these costs. The Commission should

consider including the loss in sales associated with distributed generation within the decoupling mechanism. AIC also encourages the Commission to consider ways to implement decoupling as soon as possible for electric and natural gas utility companies. Alternatives the Commission should consider include, but are not limited to: authorizing deferral of costs for future recovery or approving decoupling mechanisms for companies on a revenue-neutral basis using data from their most recently completed rate cases. Rapid implementation of decoupling makes sense for the companies and their ability to recover prudently-incurred fixed costs and, as well, facilitates the Commission's goal of dramatically increasing conservation efforts.

EXHIBIT A

ACC for resolution. Individual Consumer Services staff members have, from time – to - time had mediation training.

ADR techniques can be used for all complaints and in all industry sectors regulated by the ACC. Parties in ADR proceedings are able to design processes to meet their needs. If mediation attempts by Staff are unsuccessful, consideration should be given to referring complaints to an outside arbitrator for resolution. A non-binding arbitration process, conducted by a professional arbitrator on contract with the ACC, would relieve Staff of the most time-consuming complaints while still preserving the rights of any party to take the issue to the ACC. The parties can specify details, such as whether each party pays its own costs to an outside arbitrator or whether the party that prevails has its costs covered.

General Issue 7: The Commission should consider implementing ratemaking policies and innovative rate designs that encourage efficiencies in the use of utility services and promote conservation. Such ratemaking policies should be structured to provide incentives to consumers to conserve and become more efficient in the utilization of utility services, and remove disincentives for utility companies to invest in demand side management and other conservation-related programs. Adoption of such measures will provide benefits to consumers and reduce the number of rate cases filed with the ACC, thus lowering demand on the Commission's resources.

To meet increased demand for utility services, utility companies must make substantial investments in infrastructure. Under traditional ratemaking principles, rates are set at levels to recover the variable and fixed costs of providing service and provide an opportunity for utilities to earn a reasonable rate of return on investment. The rates are established based upon historical test year costs and sales volumes. If sales volumes decline or costs increase, the utility is unable to earn its authorized return.

Furthermore, while the utility companies must construct facilities to serve new and expanding communities in Arizona, consumers have become more efficient in their utilization of energy and water resources. For example, over the past 25 years, the average household consumption of natural gas has declined by 25 percent¹⁴. If consumers are further encouraged to lower consumption through conservation programs designed to reduce demand for utility services, it is unlikely the rates established through traditional rate designs, which recover both fixed and variable costs of providing service, will actually provide sufficient revenue to produce the rate of return authorized by the Commission.

Moreover, the economics of rate designs that recover fixed costs via throughput charges means that companies have great incentive to sell more of the commodity -- not less. As a result, there is a built-in *disincentive* under such pricing schemes for companies to promote conservation.

¹⁴ American Gas Association, "Natural Gas Rate Round-up, April 2007.

Additionally, for energy and water utilities serving Arizona, the variability in weather can greatly affect consumer usage, thus leading to significant fluctuations in consumer bills and erratic earnings for the serving companies. The combination of weather variability and efforts to conserve makes it difficult for consumers to plan winter heating budgets and also harms the financial health of the utility. The traditional ratemaking process, which places dependence on volumetric charges to recover fixed costs, coupled with declining usage and general price increases leads to more frequent rate cases, unnecessarily consuming Commission and ratepayer resources.

Nevertheless, achieving additional efficiencies in the use of scarce resources and lowering natural gas, water and electricity usage through conservation efforts are important societal goals, which can also generate substantial economic benefits. The growing global concern about emissions of greenhouse gases, most notably carbon dioxide, has led several states and Congress to mandate new energy conservation and efficiency standards and implement incentives to reduce emissions. Also, the ACC has been active in requiring utility companies to implement conservation and demand reduction programs while also enabling companies the ability to recover the costs directly related to program implementation. However, while recovery of direct costs related to demand-side management programs is an important, if not necessary, step the ACC has not yet established innovative rate design mechanisms that offset the earnings attrition from such programs, or remove disincentives for utility companies to aggressively pursue demand side management programs.

The Commission should give serious consideration to implementing ratemaking mechanisms that provide greater predictability to consumer bills and that do not penalize companies' revenues as a result of weather variability or efforts to conserve. Implementation of alternative rate designs, such as decoupling or shifting costs of service to fixed delivery charges could also lead to better cooperation and acceptance on the part of utility companies to promote conservation and efficiency since the threat of adverse financial consequences will be substantially diminished. Additionally, there are synergies between water conservation and energy conservation since energy is used in pumping water. In California, customer water consumption constitutes about 19% of electricity and 32% of natural gas consumed in the State.¹⁵

Recommendation for Treating Conservation and Rate Design

7.1 The Commission should consider authorizing alternative rate designs, such as revenue decoupling, allowing greater cost recovery through fixed delivery charges, or other rate designs that better match recovery of fixed costs in customer bills. At a minimum, the Commission should consider the authorization of weather normalization adjustments for Arizona's natural gas companies, given the extreme variability of winter weather in Arizona. The Commission should give serious

¹⁵ See <http://www.energy.ca.gov/2005publications/CEC-100-2005-007/CEC-100-2005-007-CTD.PDF>.

consideration to implementing such mechanisms in the next rate case for gas or water utilities.

Many state regulatory commissions have implemented innovative rate designs to remove disincentives for the utility companies to encourage and promote conservation, and at least one state legislature has taken up the issue as well.

For example, Nevada's legislature, in 2007, enacted a law which requires the Public Utilities Commission of Nevada to adopt regulations to establish methods and programs for natural gas utilities that remove financial disincentives, which discourage the public utility from supporting energy conservation.

Recent reports by the National Association of Regulatory Commissioners and the American Gas Association indicate that 28 states have implemented revenue decoupling or a weather adjustment clause for at least one utility, and that six states have adopted a straight fixed – variable rate design¹⁶.

¹⁶ The National Association of Regulatory Utility Commissioners, "Decoupling for Electric and Gas Utilities: Frequently Asked Questions", September, 2007; "Natural Gas Information Toolkit, September, 2008. Also, American Gas Association, "Weather Adjustment Clauses as of August 31, 2006."

In 2004, the American Gas Association and the Natural Resources Defense Council submitted a Joint Statement to NARUC supporting decoupling mechanisms as a way to remove the disincentives for companies to aggressively encourage customers to use less gas¹⁷. NARUC issued a resolution adopted by its Board of Directors in July, 2004, which encouraged the state regulatory commissions to review and consider innovative, conservation-related rate designs as recommended in the AGA/NRDC Joint Statement¹⁸.

Similarly, the California Water Action Plan states that decoupling is a method that should be considered to attain its objective of removing financial disincentives to water conservation.¹⁹

Several alternative, innovative rate design mechanisms are available for the ACC's consideration to break the link between volumetric sales and cost recovery for utility companies. These include:

- Full Revenue Decoupling Accounting Mechanism. This approach adjusts rates to compensate for any deviation between expected and

¹⁷ "Joint Statement of the American Gas Association and the Natural Resources Defense Council", submitted to the National Association of Regulatory Utility Commissioners, July 2004

¹⁸ The National Association of Regulatory Utility Commissioners, "Resolution on Gas and Electric Energy Efficiency", Adopted by the NARUC Board of Directors, July 14, 2004.

¹⁹ California Public Utilities Commission, "Water Action Plan," December 15, 2005.

actual sales. This full decoupling mechanism can be implemented based upon established per-customer sales targets or by setting a margin per-customer target.

- Partial Revenue Decoupling Accounting Mechanism, or Weather Normalization Adjustment Clause. Under this approach an adjustment mechanism is established to compensate for deviations between expected and actual sales caused by abnormal weather. As an example, in months when the actual weather is colder than normal customers use more natural gas than if the weather were normal. The opposite occurs when the actual weather is warmer than normal. A similar, but opposite situation occurs for water utilities. When weather is hotter than normal, customers use more water; when the weather is colder than normal, less water is consumed. The weather normalization adjustment offsets further increases in customers' bills due to harsh weather and eliminates fluctuations in the non-commodity charge component of volume sales, which benefits the utilities.
- Straight Fixed-Variable Rate Design. With this approach, only truly fixed costs are recovered through a fixed delivery service charge and variable charges are recovered through a commodity charge. An alternative would be to increase the fixed service charge, but keep some fixed costs in the volumetric charge as a consumer incentive to conserve.

In recent years, the ACC has shown some interest in revenue decoupling mechanisms. For example, the Commission ordered Southwest Gas Corporation, through a rate case decision, to coordinate efforts to pursue implementation of a decoupling mechanism with interested parties. Although a collaborative working group was formed and several meetings were held during 2006, this effort did not produce a consensus recommendation, and it is now uncertain how the Commission would continue to pursue its consideration of decoupling on a generic basis. With the decoupling collaborative seemingly at an impasse, the AIC believes it is now time for the Commission to implement revenue decoupling or other innovative rate designs in an upcoming rate case.