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OPEN MEETING



MEMORANDUM

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Arizona Corporation Commission

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APR 12 2011

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: April 12, 2011



RE: GRAHAM COUNTY UTILITIES, INC -- APPLICATION FOR APPROVAL OF ITS DSM PROGRAMS (DOCKET NOS. G-02527A-09-0088, G-02527A-09-0032, W-02527A-09-0201, W-02527A-09-0033, AND E-01749A-09-0087)

On August 30, 2010, Graham County Utilities, Inc. ("Graham" or "the Cooperative") filed for Commission approval of its Demand-Side Management ("DSM") plan and programs for its Gas Division. The application was filed in compliance with Decision No. 71690.

Background

Pursuant to Decision No. 71690, Graham was required to file proposed DSM programs for its Gas Division for Commission consideration. The order also established a DSM adjustor mechanism to allow recovery of DSM costs, "in the event the Cooperative [Graham] develops one or more Commission-approved DSM programs."

Proposed DSM Programs

Weatherization. In its application, Graham proposes to pay Residential and Non-residential customers an incentive of up to \$250 for materials used to weatherize a home or business, such as caulking, weather stripping and insulation. The program would be administered through a third-party non-profit organization or organizations, the Southeastern Arizona Community Unique Services ("SEACUS") and/or a local community action organization. (Final determination on the organization or organizations that would administer Graham's weatherization funding has not yet been made.) Low-income customers would receive a majority of the weatherization funding. Only verified Graham members would be eligible, and incentives would be paid only once material costs are documented.

Graham projects that the Cooperative would be able to assist in weatherizing up to 213 homes, calculating this number based on a budget of approximately \$21,000 and an average per-home incentive of \$100. Based on the savings from weatherizing 213 homes, Graham estimates that it would save approximately 11,600 therms per year (13.6 monthly therms x 4 heating months x approximately 213 weatherized homes). This represents 0.44 percent of the approximately 2.67 million therms sold annually by Graham.

Staff concludes that, while the per-home therm savings projected by Graham are reasonable, the 213-home maximum participation rate is unduly optimistic, and the associated savings are unlikely to be realized. Low-income weatherization programs are generally more difficult to deliver than other types of DSM programs, and often include multiple measures, complex diagnostic testing and repairs, or replacements, all of which tend to limit the number of homes that can be weatherized each year. Although Graham is proposing to provide supplemental funding to third-party organizations already specializing in such programs, rather than directly delivering weatherization measures itself, those organizations would still have to go through the complex weatherization delivery process.

Natural Gas Energy Efficiency Education and Advertisement. Graham has also proposed a program designed to promote weatherization and educate the Cooperative's members about natural gas energy efficiency. For this purpose, the Cooperative would use direct mailers, bill stuffers, Graham's website, radio and newspaper advertisements, handouts, annual meetings and the county fair. Any DSM monies not used would go to the weatherization program.

The small size of the proposed Education and Advertisement budget would significantly limit Graham's ability to promote energy efficiency or advertise the new weatherization program, particularly with respect to mass market advertising. Any increase, however, would require either a transfer from the limited weatherization or administration budgets, or an increase in funding.

Proposed Budget

The total DSM portfolio budget proposed by Graham is shown below:

Program/Category	Proposed Budget	Percentage of Budget
Weatherization program	\$21,316.81	85%
Natural Gas Energy Efficiency Education and Advertisement	\$1,253.93	5%
Administration/R&D	\$2,507.86	10%
Estimated Total Annual Budget	\$25,078.60	100%

The Administration/R&D category reflects funding that would be retained by Graham for internal administration expenses, such as verifying customer eligibility, processing rebates and reporting DSM program activities to the Commission. Graham is in discussion with the potential third-party organizations to provide DSM funding for weatherization materials without administrative costs being assessed by the organization(s). Under such an agreement, Graham would provide supplemental funding for organizations specializing in weatherization programs, and the Cooperative's DSM funds would be allocated to incentives for the weatherization materials such as caulking, weather-stripping and insulation.

Proposed DSM Adjustor Mechanism and Adjustor Rate

Decision No. 71690, which ordered that Graham develop DSM programs, specified a per-therm charge. The Cooperative, however, proposed a fixed charge of \$0.35 per month for Residential customers and \$1.50 per month for Non-residential customers. According to the Cooperative, the fixed charge was proposed out of concern over the limits of Graham's current billing software to accommodate per-unit charges in the future. Although Graham currently has the ability to incorporate per-therm DSM charges for Graham's gas and electric utilities, if any more per-unit fees or taxes are levied by a governmental agency in the future, the Cooperative would be forced to undergo an expensive (approximately \$356,000) upgrade of its software.

In communications with Staff, Graham has suggested a tailored per-therm charge with caps designed to mitigate the impact of the DSM adjustor charge on Graham's larger-use customers (\$0.02 per therm, with a \$0.50 Residential cap and a \$5.00 Non-residential cap). This structure shifts a larger proportion of the DSM costs to smaller users, but Graham noted that its gas division has experienced significant losses and negative equity in recent years, and expressed concern that a high DSM surcharge with no cap might cause large Non-residential customers to switch from natural gas to another fuel.<sup>1</sup> In communications with Staff, the Cooperative stated: "If this were to happen then [Graham] could lose customers and further exacerbate the poor financial condition of the cooperative to the detriment of the rest of the gas customers."

Gas Energy Efficiency Rules

At the time of Decision No. 71690 (May 2010), gas energy efficiency rules were not yet in place, nor had it been determined which gas utilities would be subject to those rules. Under the energy efficiency rules for gas utilities now in effect, Graham would not be required to meet the energy efficiency standard for gas utilities because it is not a Class A utility. With an annual operating revenue of approximately \$3.8 million, Graham is well below the \$5 million in annual operating revenues required to qualify as a Class A utility.

Recommendations

Based on Staff's review of Decision No. 71690, Staff believes the Company is in compliance with the decision, but recommends that Graham not pursue DSM programs at this time. The reasons are listed and summarized below:

- DSM programs are not financially feasible for Graham at this time;
- A DSM adjustor charge for Graham could result in either fuel switching by large customers or cost-shifting to smaller customers;

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<sup>1</sup> As an example of an uncapped DSM charge, Graham cited a Non-residential customer which would, on a simple per-therm basis, experience a DSM surcharge of approximately \$217 during a peak usage month.

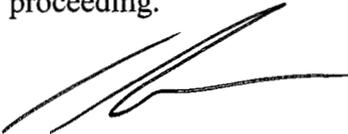
THE COMMISSION

April 12, 2011

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- It is unlikely that Graham will be able to achieve its projected participation and savings levels based on its current economic resources; and
- The current gas energy efficiency rules do not apply to Graham.

Staff recommends that the Graham DSM adjustor rate be set at zero and that the DSM requirements of Decision No. 71690 be waived and reexamined in Graham's next rate proceeding.



Steven M. Olea  
Director  
Utilities Division

SMO:JMK:sms\RM

ORIGINATOR: Julie McNeely-Kirwan

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE

Chairman

3 PAUL NEWMAN

Commissioner

4 SANDRA D. KENNEDY

Commissioner

5 BOB STUMP

Commissioner

6 BRENDA BURNS

Commissioner

7  
8 IN THE MATTER OF THE APPLICATION )  
OF GRAHAM COUNTY UTILITIES, INC. )  
9 FOR A RATE INCREASE )

DOCKET NO. G-02527A-09-0088

10  
11 IN THE MATTER OF THE APPLICATION )  
OF GRAHAM COUNTY UTILITIES, INC. )  
12 GAS DIVISION FOR APPROVAL OF A )  
13 LOAN )

DOCKET NO. G-02527A-09-0032

14  
15 IN THE MATTER OF THE APPLICATION )  
OF GRAHAM COUNTY UTILITIES, INC. )  
16 WATER DIVISION FOR A RATE )  
17 INCREASE )

DOCKET NO. W-02527A-09-0201

18  
19 IN THE MATTER OF THE APPLICATION )  
OF GRAHAM COUNTY UTILITIES, INC. )  
20 WATER DIVISION FOR APPROVAL OF A )  
21 LOAN )

DOCKET NO. W-02527A-09-0033

22  
23 IN THE MATTER OF THE APPLICATION )  
OF GRAHAM COUNTY ELECTRIC )  
24 COOPERATIVE, INC. FOR APPROVAL OF )  
A LOAN GUARANTEE )

DOCKET NO. E-01749A-09-0087

25  
26 Open Meeting  
27 April 27 and 28, 2011  
Phoenix, Arizona

28 BY THE COMMISSION:



1 heating months x approximately 213 weatherized homes). This represents 0.44 percent of the  
2 approximately 2.67 million therms sold annually by Graham.

3 7. Staff concludes that, while the per-home therm savings projected by Graham are  
4 reasonable, the 213-home maximum participation rate is unduly optimistic, and the associated  
5 savings are unlikely to be realized. Low-income weatherization programs are generally more  
6 difficult to deliver than other types of DSM programs, and often include multiple measures,  
7 complex diagnostic testing and repairs, or replacements, all of which tend to limit the number of  
8 homes that can be weatherized each year. Although Graham is proposing to provide supplemental  
9 funding to third-party organizations already specializing in such programs, rather than directly  
10 delivering weatherization measures itself, those organizations would still have to go through the  
11 complex weatherization delivery process.

12 8. Natural Gas Energy Efficiency Education and Advertisement. Graham has also  
13 proposed a program designed to promote weatherization and educate the Cooperative's members  
14 about natural gas energy efficiency. For this purpose, the Cooperative would use direct mailers,  
15 bill stuffers, Graham's website, radio and newspaper advertisements, handouts, annual meetings  
16 and the county fair. Any DSM monies not used would go to the weatherization program.

17 9. The small size of the proposed Education and Advertisement budget would  
18 significantly limit Graham's ability to promote energy efficiency or advertise the new  
19 weatherization program, particularly with respect to mass market advertising. Any increase,  
20 however, would require either a transfer from the limited weatherization or administration budgets,  
21 or an increase in funding.

22 Proposed Budget

23 10. The total DSM portfolio budget proposed by Graham is shown below:

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1           11.     The Administration/R&D category reflects funding that would be retained by  
2 Graham for internal administration expenses, such as verifying customer eligibility, processing  
3 rebates and reporting DSM program activities to the Commission. Graham is in discussion with  
4 the potential third-party organizations to provide DSM funding for weatherization materials  
5 without administrative costs being assessed by the organization(s). Under such an agreement,  
6 Graham would provide supplemental funding for organizations specializing in weatherization  
7 programs, and the Cooperative's DSM funds would be allocated to incentives for the  
8 weatherization materials such as caulking, weather-stripping and insulation.

9           Proposed DSM Adjustor Mechanism and Adjustor Rate

10           12.     Decision No. 71690, which ordered that Graham develop DSM programs, specified  
11 a per-therm charge. The Cooperative, however, proposed a fixed charge of \$0.35 per month for  
12 Residential customers and \$1.50 per month for Non-residential customers. According to the  
13 Cooperative, the fixed charge was proposed out of concern over the limits of Graham's current  
14 billing software to accommodate per-unit charges in the future. Although Graham currently has the  
15 ability to incorporate per-therm DSM charges for Graham's gas and electric utilities, if any more  
16 per-unit fees or taxes are levied by a governmental agency in the future, the Cooperative would be  
17 forced to undergo an expensive (approximately \$356,000) upgrade of its software.

18           13.     In communications with Staff, Graham has suggested a tailored per-therm charge  
19 with caps designed to mitigate the impact of the DSM adjustor charge on Graham's larger-use  
20 customers (\$0.02 per therm, with a \$0.50 Residential cap and a \$5.00 Non-residential cap). This  
21 structure shifts a larger proportion of the DSM costs to smaller users, but Graham noted that its gas  
22 division has experienced significant losses and negative equity in recent years, and expressed  
23 concern that a high DSM surcharge with no cap might cause large Non-residential customers to  
24 switch from natural gas to another fuel.<sup>1</sup> In communications with Staff, the Cooperative stated:  
25 "If this were to happen then [Graham] could lose customers and further exacerbate the poor  
26 financial condition of the cooperative to the detriment of the rest of the gas customers."

27 \_\_\_\_\_  
28 <sup>1</sup> As an example of an uncapped DSM charge, Graham cited a Non-residential customer which would, on a simple per-therm basis, experience a DSM surcharge of approximately \$217 during a peak usage month.

1 Gas Energy Efficiency Rules

2 14. At the time of Decision No. 71690 (May 2010), gas energy efficiency rules were  
3 not yet in place, nor had it been determined which gas utilities would be subject to those rules.  
4 Under the energy efficiency rules for gas utilities now in effect, Graham would not be required to  
5 meet the energy efficiency standard for gas utilities because it is not a Class A utility. With an  
6 annual operating revenue of approximately \$3.8 million, Graham is well below the \$5 million in  
7 annual operating revenues required to qualify as a Class A utility.

8 Recommendations

9 15. Based on Staff's review of Decision No. 71690, Staff believes the Company is in  
10 compliance with the decision, but recommends that Graham not pursue DSM programs at this  
11 time. The reasons are listed and summarized below:

- 12 • DSM programs are not financially feasible for Graham at this time;
- 13 • A DSM adjustor charge for Graham could result in either fuel switching by  
14 large customers or cost-shifting to smaller customers;
- 15 • It is unlikely that Graham will be able to achieve its projected participation and  
16 savings levels based on its current economic resources;
- 17 • The current gas energy efficiency rules do not apply to Graham.

18  
19 16. Staff recommends that the Graham DSM adjustor rate be set at zero and that the  
20 DSM requirements of Decision No. 71690 be waived and reexamined in Graham's next rate  
21 proceeding.

22 CONCLUSIONS OF LAW

23 1. Graham is an Arizona public service corporation within the meaning of Article XV,  
24 Section 2, of the Arizona Constitution.

25 2. The Commission has jurisdiction over Graham and over the subject matter of the  
26 application.

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3. The Commission, having reviewed the application and Staff's Memorandum dated April 12, 2011, concludes that it is not in the public interest to approve the proposed Graham DSM programs.

ORDER

IT IS THEREFORE ORDERED that the Graham County Utilities, Inc. DSM adjustor rate be set at zero and that the DSM requirements of Decision No. 71690 be waived and reexamined at Graham's next rate proceeding.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:JMK:sms/RM

1 SERVICE LIST FOR: Graham County Utilities  
2 DOCKET NOS. G-02527A-09-0088, et al.

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4 Director of Regulatory and Strategic Services  
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