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AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

8 COMMISSIONERS

9 GARY PIERCE – CHAIRMAN
10 BOB STUMP
11 SANDRA D. KENNEDY
12 PAUL NEWMAN
13 BRENDA BURNS

Arizona Corporation Commission

DOCKETED

JUN 24 2011

DOCKETED BY 

13 IN THE MATTER OF THE APPLICATION OF
14 SOUTHWEST GAS CORPORATION FOR THE
15 ESTABLISHMENT OF JUST AND REASONABLE
16 RATES AND CHARGES DESIGNED TO
17 REALIZE A REASONABLE RATE OF RETURN
18 ON THE FAIR VALUE OF ITS PROPERTIES
19 THROUGHOUT ARIZONA.

Docket No. G-01551A-10-0458

**NOTICE OF FILING DIRECT
TESTIMONY OF SOUTHWEST
ENERGY EFFICIENCY PROJECT**

18
19
20 Southwest Energy Efficiency Project (“SWEEP”), through its undersigned counsel,
21 hereby provides notice that it has this day filed the written direct testimony of Jeff Schlegel in
22 connection with the above-captioned matter.
23
24
25
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28

1 RESPECTFULLY SUBMITTED this 24th day of June, 2011.

2 ARIZONA CENTER FOR LAW
3 IN THE PUBLIC INTEREST

4 By 

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11 ORIGINAL and 13 COPIES of the
12 foregoing filed this 24th day of
13 June, 2011 to:

14 Docketing Supervisor
15 Docket Control
16 Arizona Corporation Commission
17 1200 W. Washington
18 Phoenix, AZ 85007

19 COPIES of the foregoing
20 electronically mailed this
21 24th day of June, 2011 to:

22 All Parties of Record

23 By: 

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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BOB STUMP
SANDRA D. KENNEDY
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IN THE MATTER OF THE APPLICATION OF
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Docket No. G-01551A-10-0458

Direct Testimony of

Jeff Schlegel

on behalf of the

Southwest Energy Efficiency Project (SWEEP)

June 24, 2011

**Direct Testimony of Jeff Schlegel, SWEEP
Docket No. G-01551A-10-0458**

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Introduction

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Q. Please state your name and business address.

A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson, Arizona 85704-3224.

Q. For whom are you testifying?

A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP).

Q. Please describe the Southwest Energy Efficiency Project (SWEEP).

A. SWEEP is a public interest organization dedicated to advancing energy efficiency as a means of promoting customer benefits, economic prosperity, and environmental protection in the six states of Arizona, Colorado, New Mexico, Nevada, Utah, and Wyoming. SWEEP works on state energy legislation, analysis of energy efficiency opportunities and potential, expansion of state and utility energy efficiency programs as well as the design of these programs, building energy codes and appliance standards, and voluntary partnerships with the private sector to advance energy efficiency. SWEEP is collaborating with utilities, state agencies, environmental groups, universities, and energy specialists in the region. SWEEP is funded by foundations, the U.S. Department of Energy, and the U.S. Environmental Protection Agency. I am the Arizona Representative for SWEEP.

Q. What are your professional qualifications?

A. I am an independent consultant specializing in policy analysis, evaluation and research, planning, and program design for energy efficiency programs and clean energy resources. I consult for public groups and government agencies, and I have been working in the field for over 25 years. In addition to my responsibilities with SWEEP, I am working or have worked extensively in many of the states that have effective energy efficiency programs, including California, Connecticut, Massachusetts, New Jersey, Vermont, and Wisconsin. In 1997, I received the Outstanding Achievement Award from the International Energy Program Evaluation Conference. I have testified before the Arizona Corporation Commission in many proceedings.

Q. What is the purpose of your testimony?

A. In my testimony I will summarize the public interest in increasing natural gas energy efficiency, support the energy efficiency programs proposed by Southwest Gas in its

1 Energy Efficiency and Renewable Energy Resources Technology (“EE and RET”)
2 Portfolio, urge Commission approval of the EE and RET Implementation Plan in this
3 proceeding (potentially in an interim decision to ensure timely implementation to
4 benefit Southwest Gas customers), comment on and support the decoupling
5 mechanism (Energy Efficiency Enabling Provision or EEP) proposed by Southwest
6 Gas to reduce the financial disincentive to utility support of energy efficiency, and
7 discuss the linkage between the increased utility efforts in energy efficiency and the
8 adoption of decoupling.
9

10
11 **The Public Interest in Increasing Natural Gas Energy Efficiency**
12

13 Q. What is the public interest in increasing natural gas energy efficiency?
14

15 A. Natural gas DSM energy efficiency programs are in the public interest. Increasing gas
16 energy efficiency will provide significant and cost-effective benefits for Southwest
17 Gas customers, the natural gas and electric utility systems, the economy, and the
18 environment. Increasing natural gas energy efficiency will save consumers and
19 businesses money through lower energy bills, resulting in lower total costs for
20 customers. Natural gas energy efficiency programs will help mitigate fuel price
21 increases and reduce customer vulnerability and exposure to natural gas price
22 volatility. Increasing natural gas energy efficiency will also diversify energy
23 resources, reduce air pollution and carbon emissions, and create jobs and improve the
24 economy. Natural gas energy efficiency is a reliable energy resource that costs less
25 than other resources for meeting the energy needs of customers in the Southwest Gas
26 service territory.
27

28
29 **Energy Efficiency Programs and the EE and RET Implementation Plan**
30

31 Q. What are the opportunities for effective and cost-effective energy efficiency programs
32 and renewable energy programs to benefit Southwest Gas customers, both residential
33 consumers and businesses?
34

35 A. There are many opportunities for cost-effective natural gas energy efficiency in the
36 Southwest Gas service territory in Arizona, as evidenced by the programs Southwest
37 Gas has implemented to date, the cost-effective programs proposed in the Company’s
38 proposed Energy Efficiency (EE) and Renewable Energy Resource Technology
39 (RET) portfolio (“EE and RET Portfolio”) Implementation Plan, and the successful
40 natural gas EE/DSM programs in other states.
41

42 To more fully address the opportunities throughout the Southwest Gas service
43 territory, the Company-proposed EE and RET programs, supported with the proposed
44 additional funding, are necessary to capture cost-effective energy efficiency
45 opportunities and to assist more customers in reducing their energy bills.
46
47

1 Q. Specifically, what programs has Southwest Gas proposed in its EE and RET
2 Portfolio?

3
4 A. The Company's proposed EE and RET Portfolio consists of ten programs designed to
5 deliver substantial benefits for residential, low income, and non-residential customers.
6 The programs, described in the second volume of Company's 2010 General Rate
7 Case Application¹ along with cost-effectiveness results and estimated budgets², are
8 branded under the "Smarter Greener Better" umbrella and include:

- 9
10 1. Smarter Greener Better Residential Rebates;
11 2. Smarter Greener Better Homes;
12 3. Smarter Greener Better Residential Energy Assessments;
13 4. Smarter Greener Better Business Rebates;
14 5. Smarter Greener Better Custom Business Rebates;
15 6. Smarter Greener Better Business Energy Assessments;
16 7. Smarter Greener Better Distributed Generation;
17 8. Smarter Greener Better Low-Income Energy Conservation;
18 9. Smarter Greener Better Energy Education; and,
19 10. Smarter Greener Better Solar Thermal Rebates

20
21 Importantly, the Portfolio includes programs that provide opportunities for all
22 customer segments to benefit from the EE and RET programs, including low income
23 customers, residential consumers, small businesses, municipalities and schools, and
24 large commercial and industrial customers.

25
26
27 Q. Please provide a summary of the benefits of the EE and RET programs in the
28 proposed Southwest Gas Portfolio.

29
30 A. The EE and RET Portfolio is beneficial for residential customers and businesses,
31 cost-effective with a total benefit/cost ratio of 1.68, and expected to deliver more than
32 \$35 million in total societal benefits to customers.³

33
34
35 Q. How do the Company-proposed EE and RET programs relate to the Commission's
36 Gas Utility Energy Efficiency Standard and Rules?

37
38 A. Pursuant to A.A.C. R14-2-2501 through R14-2-2520, the Gas Utility Energy
39 Efficiency Standard and Rules ("Standard and Rules"), the Company is required to
40 achieve cumulative annual energy savings equal to at least six percent of calendar
41 year 2019 retail sales by December 31, 2020. In addition, by December 31, 2011, the
42 Company is required to achieve cumulative annual energy savings equal to at least
43 0.50% of calendar year 2010 retail sales, and by December 31, 2012, cumulative

¹ Southwest Gas 2010 General Rate Case Application, Volume 2, pp. 3-62

² Id., Volume 2, pp. 5-7

³ Id., Volume 2, p. 5

1 annual energy savings equal to at least 1.20% of calendar year 2011 retail sales. The
2 Company's testimony, including its proposed EE and RET Portfolio filed on
3 November 12, 2010, describes how the company plans to achieve these energy
4 savings requirements. SWEEP agrees that the proposed EE and RET programs are
5 necessary to comply with the Commission's Gas Energy Efficiency Standard and
6 Rules.

7
8
9 Q. In which Commission proceeding should the proposed EE and RET programs be
10 approved? And when should the EE and RET programs be approved and
11 implemented?

12
13 A. SWEEP recommends Commission approval of the cost-effective energy efficiency
14 programs as part of this docket (i.e., in the Southwest Gas General Rate Case docket).
15 SWEEP asserts that cost-effective programs should be approved and implemented
16 without delay, and in any and all events on or before the effective date of any new
17 rates approved in this rate case docket.

18
19 SWEEP understands that Staff has been conducting its review of the EE and RET
20 programs. SWEEP recommends that those programs found to be cost-effective
21 should be approved in this proceeding and launched in a timely manner to ensure that
22 customers receive the utility bill reductions and other benefits as soon as possible. If
23 necessary for timely implementation before the effective date of any new rates, the
24 EE and RET programs should be approved in an interim decision in this proceeding.
25 Commission approval of the cost-effective EE and RET programs should not be
26 delayed.

27
28
29 Q. Are there any outstanding concerns about the proposed EE and RET programs, and if
30 so, how should any such concerns be addressed? Is a Technical Session needed?

31
32 A. While SWEEP has some outstanding concerns about the EE and RET Portfolio,
33 including a need to better understand the savings and benefits associated with the
34 proposed energy assessment programs (including any additional information resulting
35 from Staff's review, which has been ongoing), and the Company's plans to market
36 and deliver programs to promote customer installation of comprehensive packages of
37 energy efficiency, we believe these issues would be best addressed and resolved
38 during a Technical Session among interested parties. Any outstanding issues that
39 Staff, SWEEP, or any other party have regarding the EE and RET Portfolio should be
40 addressed in the Technical Session so that the cost-effective programs are reviewed in
41 a timely manner and approved by the Commission on or before the effective date of
42 any new rates.

43
44
45 Q. Are you aware of the status of Staff's review of the EE and RET programs?
46

1 A. SWEEP is not fully aware of the status of Staff's review. As noted above, SWEEP
2 asserts that cost-effective EE and RET programs should be implemented as soon as
3 possible for the benefit of Southwest Gas customers. The proposed EE and RET
4 Implementation Plan was filed more than six months ago and Staff should be nearing
5 the completion of its review. Should Staff require additional time and resources to
6 complete its review, potentially including supplemental outside technical support so
7 that the EE and RET programs could be adequately and promptly reviewed by Staff
8 and then approved by the Commission on or before the effective date of any new
9 rates, SWEEP would support the allocation of funds for such technical assistance.

10
11
12 Q. Does SWEEP support the Company's proposal to be authorized to apply the 2011
13 Standard (i.e., achieving cumulative annual energy savings equal to at least 0.50% of
14 calendar year 2010 retail sales by December 31, 2011) to the first 12-month period
15 following approval and implementation of the Company's EE and RET Plan?
16

17 A. No. SWEEP believes the Company should make all reasonable efforts to achieve the
18 cumulative annual energy savings required by the Standard and Rules by December
19 31, 2011. However, SWEEP shares the Company's concern that a delay in
20 Commission approval of the proposed EE and RET programs would constrain the
21 Company's ability to meet the Standard in 2011. Therefore, SWEEP would support
22 some flexibility and Commission consideration for the Company regarding the
23 Company's achievement of the 2011 Standard, so long as that by December 31, 2012,
24 the Company is required to achieve cumulative annual energy savings equal to at
25 least 1.20% of calendar year 2011 retail sales, as required by the Standard and Rules.
26

27
28 Q. Should the Commission, in this rate case, require Southwest Gas to meet the energy
29 savings requirements of the Gas Standard and Rules?
30

31 A. Yes. The Commission, in this rate case, should require Southwest Gas to meet the
32 energy savings requirements of the Gas Standard and Rule. To ensure that Southwest
33 Gas customers receive the utility bill reductions through the energy savings required
34 by the Gas Standard and Rules, the Commission should include a requirement to meet
35 the Standard in its final decision in this proceeding.
36

37
38 **Decoupling to Reduce the Financial Disincentive**
39 **to Natural Gas Utility Support of Energy Efficiency**
40

41 Q. Does Southwest Gas experience a financial disincentive to its support of energy
42 efficiency when its customers respond and become more energy efficient?
43

44 A. Yes. Traditional utility regulation links the utility's financial health to the volume of
45 natural gas sold, resulting in a financial disincentive to support energy efficiency and
46 other demand-side resources that reduce natural gas sales. For Southwest Gas, energy
47 savings by customers (which are beneficial for customers) result in lower revenues

1 for the company and result in under-recovery of Commission-authorized utility fixed
2 costs. In general, this financial disincentive can reduce utility support and enthusiasm
3 for cost-effective resources such as energy efficiency programs that minimize the
4 long-term cost of providing service. It also could impede potentially crucial utility
5 support for building energy codes, energy efficiency appliance standards, and other
6 policies that serve customer and societal interests.

7
8
9 Q. Should a decoupling mechanism for Southwest Gas be implemented to reduce the
10 financial disincentive and encourage Southwest Gas to support additional increases in
11 energy efficiency – through EE and RET programs, and also from building energy
12 codes and appliance efficiency standards?

13
14 A. Yes. The financial interest of Southwest Gas should be better aligned with the
15 interests of Southwest Gas customers by reducing financial disincentives to utility
16 support of energy efficiency, thereby resulting in more energy savings and larger
17 reductions in customer energy bills.

18
19 SWEEP supports decoupling mechanisms to address issues related to energy
20 efficiency, i.e., when such mechanisms would be effective in substantially increasing
21 customer energy efficiency and reducing the financial disincentive to gas utility
22 support of increased energy efficiency. SWEEP is not in favor of decoupling solely
23 or primarily as a mechanism for the utility to recover authorized fixed costs.
24 Therefore, in SWEEP's view the implementation of decoupling is premised on
25 substantial increases in customer energy efficiency, for which the decoupling
26 mechanism would reduce the financial disincentive to the utility of such increased
27 energy efficiency. The Company addressed SWEEP's premise by proposing the EE
28 and RET programs in its Application, which are necessary to achieve the Gas
29 Standard.

30
31
32 Q. Do you support the decoupling mechanism (Energy Efficiency Enabling Provision or
33 EEP) proposed by Southwest Gas?

34
35 A. Yes. SWEEP supports the decoupling mechanism proposed by Southwest Gas. The
36 Company-proposed decoupling mechanism or EEP consists of two parts: (1)
37 customer bills will be adjusted each month when actual weather during the billing
38 cycle differs from the average weather used in the calculation of rates; and (2) rates
39 will be adjusted annually to true-up the difference between authorized and
40 experienced non-gas revenues.

41
42 The decoupling adjustments could be either up or down, either increases or decreases
43 to customer bills. Analysis of prior experience with decoupling has shown the
44 adjustments to be small, generally less than 3% and typically less than \$1.50 per
45 month for residential gas customers.⁴

⁴ Pamela Lesh, Rate Impacts and Key Design Elements of Gas and Electric Utility Decoupling: A Comprehensive Review, Electricity Journal (October 2009), p. 67.

1
2 Q. Is the Company-proposed decoupling mechanism consistent with the Commission's
3 Decoupling Policy Statement?

4
5 A. Yes. The Company's EE and RET Portfolio in concert with its proposed revenue per
6 customer decoupling mechanism is consistent with the Commission's Decoupling
7 Policy Statement.⁵ The Company's proposal meets the following policies set forth in
8 the Policy Statement:
9

- 10 ▪ "Utilities should pursue all cost-effective energy efficiency and demand side
11 management resources, and should meet Arizona's Electric and Gas Efficiency
12 Standards of at least... 6% gas savings by 2020."
13 ▪ "Revenue decoupling may offer significant advantages over alternative
14 mechanisms for addressing utility financial disincentives to energy efficiency."
15 ▪ "While other decoupling models are appropriate in general, non-fuel revenue per
16 customer decoupling may be well suited for Arizona."
17 ▪ "Adoption of decoupling. . . should not occur as a pilot as this insufficiently
18 supports demand-side management efforts, discourages beneficial changes in rate
19 design, and is unlikely to encourage financial ratings improvements."
20 ▪ "Full decoupling is preferable to partial decoupling."
21 ▪ "Decoupling adjustments should occur at least on an annual basis, however,
22 parties may propose more current adjustments as this may provide ratepayers with
23 weather related relief following extreme events."
24 ▪ "Broad participation in decoupling is preferred; however, the unique
25 characteristics of each utility may merit different treatment of some customer
26 classes."
27 ▪ "Collars or caps on decoupling adjustments should be designed to encourage
28 gradualism, and to minimize the short-term effects on customers."
29
30

31 Q. Do you support a cap on the decoupling adjustments?
32

33 A. Yes. SWEEP supports the use of a cap of no more than 5-6% of revenue on any
34 upwards adjustments (increases in customer natural gas bills). SWEEP does not
35 support a cap on any downwards adjustments (i.e., credits on customer bills should
36 not be limited by a cap).
37
38

39 Q. Are there actions that could be taken to review the performance of the decoupling
40 mechanism in the early years of its implementation?
41

42 A. Yes. SWEEP suggests that the implementation of the decoupling mechanism could
43 be done for three years, with evaluation and review at the end of the three-year
44 period, and with periodic (annual or more frequent) tracking during the three-year
45 period. The three-year review is consistent with the Commission's Decoupling

⁵ Final ACC Policy Statement Regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures, Docket Nos. E-00000J-08-0314 and G-00000C-08-0314, p. 30 (Dec. 29, 2010).

1 Policy Statement (number 5). Such review should begin during the three-year period,
2 so that the review is completed and available in time for the Commission to make any
3 decisions regarding ongoing implementation of decoupling and any revisions to the
4 decoupling mechanism.
5
6

7 **The Linkage Between Energy Efficiency and Decoupling**
8

9 Q. Is your proposal for Commission approval of the EE and RET portfolio and increased
10 funding to support the programs conditioned on approval of the decoupling
11 mechanism?
12

13 A. No. SWEEP recommends Commission approval of the EE and RET portfolio and
14 increased funding to support the programs with or without approval of a decoupling
15 mechanism. Increasing natural gas energy efficiency will provide significant and
16 cost-effective benefits for Southwest Gas customers, the natural gas and electric
17 utility systems, the economy, and the environment. However, SWEEP believes that
18 Southwest Gas will be a more enthusiastic administrator of the EE and RET
19 programs, and will be a much more ambitious supporter and advocate for building
20 energy codes and appliance efficiency standards – all of which benefit customers
21 through lower utility bills – if the disincentive to utility support of energy efficiency
22 is reduced through decoupling. Therefore, SWEEP urges the Commission to approve
23 the decoupling mechanism for Southwest Gas as discussed above.
24
25

26 Q. Should the Commission consider other approaches or mechanisms to link the
27 decoupling mechanism and its implementation to the energy savings that customers
28 will be receiving?
29

30 A. Yes. SWEEP suggests that to increase the linkage between the implementation of
31 decoupling and the customer energy savings provided by increased energy efficiency,
32 any upwards annual decoupling adjustment (not the monthly billing period weather-
33 related adjustments) should be implemented on customer bills only if Southwest Gas
34 achieves the energy savings levels (or a significant portion of the energy savings)
35 required by the Gas EE Standard in the prior annual period. As noted above, SWEEP
36 would be willing to support some flexibility in the implementation of such a
37 provision related to the Standard in 2011 because of the timing of Commission
38 approval of the proposed EE and RET programs.
39
40
41

42 **Conclusion**
43

44 Q. Does this conclude your direct testimony?
45

46 A. Yes.
47