

ORIGINAL



0000127876

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

Arizona Corporation Commission
DOCKETED

2011 JUL 29 P 1:57

JUL 29 2011

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY

COMMISSIONERS

GARY PIERCE – Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

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

Docket No. G-01551A-10-0458

NRDC'S NOTICE OF FILING TESTIMONY
IN SUPPORT OF THE PROPOSED SETTLEMENT AGREEMENT

The Natural Resources Defense Council (NRDC) hereby files this Notice of Filing Testimony in support of the Proposed Settlement Agreement dated July 15, 2011, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 28th day of July, 2011.

By
Laura E. Sanchez
NRDC
PO Box 287
Albuquerque, NM 87103

ORIGINAL and thirteen (13) COPIES of the foregoing sent by FEDEX this 28th day of July, 2011 to:

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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

COPIES of the foregoing
e-mailed this 28th day of July, 2011 to:

Dwight D. Nodes
Asst. Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission

Justin Lee Brown
Debra S. Gallo
Southwest Gas Corporation

Daniel Pozefsky
RUCO

Michael W. Patten
Roshka, DeWulf & Patten, PLC
Tucson Electric Power Co.

Philip J. Dion
Melody Gilkey
Tucson Electric Power Co.

Timothy M. Hogan
Arizona Center for Law in the Public Interest/
Southwest Energy Efficiency Project

Jeff Schlegel
Southwest Energy Efficiency Project

Michael M. Grant
Arizona Investment Council

Gary Yaquinto, President & CEO
Arizona Investment Council

Cynthia Zwick

Robin R. Mitchell
Legal Division
Arizona Corporation Commission

By: 

BEFORE THE ARIZONA CORPORATION COMMISSION

TESTIMONY

OF

RALPH CAVANAGH

ON THE SETTLEMENT AGREEMENT FILED WITH THE COMMISSION

DOCKET No. G-01551A-10-0458

1 Q. Please state your name, address, and
2 employment.

3 A. My name is Ralph Cavanagh. I am the Energy
4 Program Co-Director for the Natural Resources Defense
5 Council ("NRDC"), 111 Sutter Street, 20th Floor, San
6 Francisco, CA 94104.

7 Q. Have you filed testimony previously in this
8 proceeding?

9 A. Yes, I filed Direct Testimony on behalf of
10 NRDC in this proceeding through NRDC's attorney, Laura
11 Sanchez, on June 23, 2011. My qualifications have not
12 changed, and I continue to hold the views presented there
13 in support of Southwest Gas Corporation's original proposal
14 for a revenue-per-customer decoupling mechanism.

15 Q. What is the purpose of this additional
16 testimony?

17 A. This additional testimony, submitted again on
18 behalf of NRDC, presents my views on the Settlement
19 Agreement submitted to the Commission in this proceeding by
20 NRDC and other parties earlier in July.

21 Q. Summarize your conclusions and
22 recommendations.

23 A. Southwest originally proposed an energy
24 efficiency enabling provision (EEP) consisting of "a
25 revenue per customer decoupling mechanism that is designed

1 to eliminate the link between sales and revenues that
2 currently exists with traditional rate designs, so that the
3 existing financial disincentive associated with Southwest
4 Gas's pursuit of cost-effective energy efficiency is
5 eliminated."¹ The company's General Rate Case Application
6 appropriately linked that proposal to its significant role
7 in achieving the Commission's Electric and Gas Energy
8 Efficiency Standards, which NRDC strongly supports.²

9 I concluded in my Direct Testimony that the
10 Southwest proposal was entirely consistent with the
11 Commission's recent Final Policy Statement Regarding
12 Utility Disincentives to Energy Efficiency and Decoupled
13 Rate Structures ("Final Policy Statement"),³ and I
14 recommended its approval. Alternative B of the Settlement
15 Agreement retains the essential elements of the original
16 Southwest proposal and I support its adoption, for reasons
17 canvassed at length in my Direct Testimony. Alternative B
18 would remove a potent disincentive to the company's
19 engagement with all forms of energy efficiency progress, by
20 ensuring that the Company recovers no more and no less than
21 the fixed costs previously authorized by the Commission,

¹ Prepared Direct Testimony of Edward B. Giesecking, p. 12:
9-13.

² Southwest Gas Corporation, Application, Docket No. G-
01551A-10-0458) (Nov. 12, 2010), pp. 8-9.

³ Docket Nos. E-00000J-08-0314 and G-000000C-08-0314 (Dec. 29,
2011).

1 notwithstanding any short-term fluctuations in natural gas
2 use.

3 However, as permitted by the express terms of the
4 Settlement Agreement [Item 3.2], I recommend strongly
5 against adopting its proposed Alternative A, which is
6 characterized as "a partial revenue decoupling mechanism."
7 Alternative A fails to break the linkage between
8 Southwest's financial health and retail sales, and seeks
9 instead simply to restore lost revenues associated with
10 energy savings determined to have resulted from the
11 utility's "achievement of the Commission's required energy
12 savings." [Item 3.4] Key elements of Alternative A were
13 effectively considered and rejected by the Commission
14 itself in the Final Policy Statement, which was the
15 centerpiece of my Direct Testimony (and was adopted
16 unanimously less than seven months ago).

17 Q. If you oppose Alternative A, why did NRDC join
18 the other parties to the Settlement Agreement?

19 A. The parties to the agreement agreed that the
20 document would include both Alternatives A and B, and that
21 parties other than Staff reserved the right to oppose one
22 alternative and support the other. That is exactly what I
23 am doing here.

24 Q. Why do you conclude that Alternative A is
25 inconsistent with the Commission's Final Policy Statement?

1 A. Following Commission workshops in which I and
2 many others participated, which canvassed partial
3 decoupling options at length, the Commission's Policy
4 Statement concluded [p. 31, Item 8] that "full decoupling
5 is preferable to partial decoupling as it contributes to
6 greater rate stability which would encourage improvements
7 in financial ratings, is administratively more manageable,
8 and offer opportunity for rate relief following extreme
9 weather events."

10 I agree strongly with the Commission's conclusion to
11 endorse full decoupling over "partial" variants, including
12 the lost revenue recovery approach that is the centerpiece
13 of Alternative A. Although I appreciate Alternative A's
14 retention of the appealing weather adjustment from
15 Southwest's original proposal [Item 3.4], I reemphasize my
16 view that partial decoupling like that of Alternative A
17 would undercut the whole purpose of the mechanism, while
18 creating perverse incentives. It would reintroduce
19 automatic penalties, in the form of reduced fixed-cost
20 recovery, for all cost-effective natural gas savings not
21 directly associated with savings determined to have been
22 "achieved" by the Company, even when the Company by action
23 or inaction could make a material difference in prospects
24 for those savings (e.g., efficiency standards administered
25 by government agencies, which can benefit greatly from

1 utility support; informal intervention by utility staff to
2 encourage customer patronage of independent energy
3 efficiency contractors; and effective public education
4 campaigns with multiple participants including utilities).
5 Alternative A would also create a powerful and perverse new
6 incentive for the Company to promote programs that looked
7 good on paper but delivered little or no savings in
8 practice (because then Alternative A would deliver double
9 recovery). And it would ensure adversarial discord over
10 every savings calculation, since significant financial
11 stakes would then hinge on the results.

12 Unlike full decoupling, Alternative A would leave
13 unimpaired strong utility incentives to promote increased
14 natural gas use, since (unlike Alternative B) Southwest
15 would keep any per-customer fixed cost recovery in excess
16 of that authorized by the Commission. Paying a utility
17 bonuses for both increases in its per-customer natural gas
18 sales and its "achieved" natural gas savings is the
19 metaphorical equivalent of encouraging the CEO to drive
20 with one foot on the brake and the other on the
21 accelerator.

22 Finally, and most tellingly, adjustments keyed
23 solely to adjudicated savings would mean annual rate
24 increases (unless the company was wholly ineffective),
25 whereas rate adjustments under full decoupling can be

1 either positive or negative (Southwest notes, for example,
2 that its most recent Nevada decoupling adjustment "will
3 return approximately \$2 million to its customers."⁴) This
4 point is worth underscoring: in sharp contrast to
5 Alternative B, Alternative A virtually guarantees annual
6 rate increases.

7 Q. But wouldn't adoption of Alternative B mean
8 paying Southwest for savings that it didn't help achieve?

9 A. No, because unlike Alternative A, Alternative
10 B doesn't "pay" Southwest any incremental amount for
11 anything; it is simply a mechanism that allows the company
12 to receive the fixed-cost revenue requirement per customer
13 that the Commission has reviewed and approved.

14 Q. Would the adoption of Alternative B reduce
15 risks for Southwest and shift risks to customers?

16 A. No. Under Alternative B Southwest would still
17 face business and cost risks in its operations. Also, as I
18 noted in my direct testimony, an appealing feature of
19 Alternative B is that it reduces risks for *both* customers
20 and Southwest; customers get prompt relief from cost
21 increases driven by extreme weather events, and Southwest
22 reduces its downside risk regarding under-recovery of its
23 Commission-authorized fixed costs.

⁴ Prepared Direct Testimony of Edward B. Giesecking, p. 9:5.

1 Q. Does this conclude your testimony about the
2 Settlement Agreement?

3 A. Yes.