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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORPORATION COMMISSION
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JUL 14 2014

DOCKETED BY

RICHARD GAYER,

COMPLAINANT,

V.

SOUTHWEST GAS CORPORATION,

RESPONDENT.

DOCKET NO. G-01551A-13-0327

NOTICE OF FILING
STAFF'S SUPPLEMENTAL TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files the Supplemental Testimony of Robert G. Gray, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 14th day of July, 2014.

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Original and thirteen (13) copies of the foregoing filed this 14th day of July, 2014, with:

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

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Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF RICHARD GAYER,)
COMPLAINANT,)
V.)
SOUTHWEST GAS CORPORATION,)
RESPONDENT)
_____)

DOCKET NO. G-01551A-13-0327

SUPPLEMENTAL

TESTIMONY

OF

ROBERT G. GRAY

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 14, 2014

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EXECUTIVE SUMMARY
SOUTHWEST GAS CORPORATION
DOCKET NO. G-01551A-13-0327

This filing supplements Staff's Direct Testimony in this case, filed May 27, 2014. At the time Staff filed its Direct Testimony, Staff was still gathering information regarding a number of issues related to Mr. Gayer's complaint. Given the additional information Staff has gathered, Staff now files its Supplemental Testimony. Issues that are addressed include Southwest's communications efforts regarding the implementation of revenue decoupling, verification of Mr. Gayer's January and February 2012 bills, Southwest's application of its tariff pages that identify how revenue decoupling would work, and whether Southwest applied calculations that are beyond what was approved by the Commission in Southwest's last rate proceeding.

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1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Robert G. Gray. I am an Executive Consultant III employed by the Arizona
4 Corporation Commission (“ACC” or “Commission”) in the Utilities Division (“Staff”). My
5 business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Robert G. Gray that filed direct testimony in this case on May 27,**
8 **2014?**

9 A. Yes.

10

11 **Q. What is the purpose of your supplemental testimony?**

12 A. At the time my Direct Testimony was filed, Staff was still investigating a number of aspects
13 related to Mr. Gaye’s complaint. In my Direct Testimony I indicated that Staff would
14 supplement its position regarding certain aspects of Mr. Gaye’s complaint that Staff was still
15 investigating. This testimony covers the areas related to the Monthly Weather Adjustment
16 (“MWA”), also known as the Weather Normalization Adjustment (“WNA”), that were not
17 fully addressed in my May 27, 2014 testimony.

18

19 **SOUTHWEST COMMUNICATIONS WITH CUSTOMERS FOLLOWING ADOPTION**
20 **OF REVENUE DECOUPLING**

21

22 **Q. Did the settlement agreement approved by the Commission in Southwest’s last rate**
23 **case address the Company educating its customers regarding the newly adopted**
24 **revenue decoupling mechanism?**

25 A. Yes. On page 11, lines 12-13 of Decision No. 72723 (January 6, 2012), there is a provision
26 whereby “SWG will submit a proposed customer outreach/education plan for Staff review
27 and approval, to outline how the Company intends to explain decoupling to customers.”

1 Southwest filed its communication plan in Docket No. G-01551A-10-0458 on March 2, 2012.
2 The filed plan included a wide variety of outreach efforts, including e-mail, website, social
3 media, bill insert and messages, other mailings, print and radio advertisements, internal
4 communications, and other tactics and tools. The filed plan also included timelines for
5 internal and external communications through the end of 2012 as well as identified on-going
6 communications.

7
8 **Q. Did Southwest implement the plan it filed with the Commission on March 2, 2012?**

9 A. From information provided by Southwest in response to several Staff data requests, it appears
10 that Southwest decided, subsequent to the March 2, 2012 filing of the plan, to significantly
11 scale back its communication efforts regarding decoupling in comparison to the contents of
12 the filed plan. Southwest indicated that it put information on its website and included
13 information on decoupling in a January 2012 customer bill insert as well as a December 14,
14 2011 press release. Southwest further indicated that it participated in two Commission public
15 comment sessions where decoupling was discussed as well as worked with its internal staff to
16 prepare them to answer questions regarding decoupling. In summary, Southwest did not
17 implement large portions of the communications plan filed with the Commission on March 2,
18 2012.

19
20 **Q. Does Staff believe that Southwest complied with the requirement to file a plan**
21 **identifying how the Company intends to communicate with its customers regarding**
22 **revenue decoupling?**

23 A. Southwest's filing of a plan on March 2, 2012 indicating how the Company intended to
24 communicate with customers would appear to comply with the requirement in Decision No.
25 72723 being discussed here. The disconnect occurs in that Southwest did not actually
26 implement the plan it filed with the Commission. Southwest indicated to Staff in response to

1 a data request that there were fewer customer calls following the 2011 settlement agreement
2 than there had been in the previous rate case. Southwest further indicated that it believed
3 there was a positive reception from customers and thus Southwest decided to use traditional
4 communication channels (the actions it took as discussed above), rather than the more
5 intensive communications efforts contained in the March 2, 2012 filing.

6
7 While Staff cannot say that Southwest is out of compliance at this time, Staff finds it
8 disconcerting that the Company would largely abandon a communications plan it had filed
9 with the Commission. The settlement agreement in Southwest's last rate case proceeding
10 specifically included the requirement to file a communications plan, as the Commission
11 believed it was important to communicate to customers regarding the new revenue
12 decoupling mechanism and its impacts on their monthly bills. Staff, and Staff believes the
13 Commission, expected Southwest to undertake significant communications efforts, such as
14 the March 2, 2012 plan contained. However, Staff notes that the use of the word "intends"
15 in the settlement agreement leaves open the possibility that the Company could change its
16 mind at a later time as to its level of communications efforts regarding the introduction of
17 revenue decoupling in its Arizona service territory. While Southwest's communication
18 efforts might not technically violate the settlement provisions that were adopted by Decision
19 No. 72723, Staff is nonetheless disappointed by the Company's implementation of its
20 communications plan.

21
22 **ACCURACY OF MR. GAYER'S JANUARY AND FEBRUARY 2012 SOUTHWEST GAS**
23 **BILLS**

24
25 **Q. Have you reviewed Mr. Gaye's January and February 2012 Southwest Gas bills, which**
26 **are discussed in Mr. Gaye's Direct Testimony in this case?**

1 A. Yes. Mr. Gayer does not specifically indicate that he believes his January and February 2012
2 bills are in error, but Staff believes it is important to identify whether there are errors in the
3 bills Mr. Gayer discusses in his Direct Testimony.

4
5 **Q. Do you believe that Mr. Gaye's January and February 2012 Southwest Gas bills were**
6 **accurately calculated?**

7 A. Yes, with one minor footnote.

8
9 **Q. What is this minor footnote?**

10 A. The heating degree days ("HDDs") used by Southwest come from a vendor who compiles
11 the information and provides it to Southwest on a next day basis for Southwest to use in
12 calculating its MWA for customers on a timely basis. Staff noticed that the HDDs used by
13 Southwest in calculating Mr. Gaye's January and February 2012 bills were slightly different
14 than the final HDDs shown on the National Oceanic and Atmospheric Administration
15 National Climate Data Center ("NCDC") final data for Phoenix Sky Harbor International
16 Airport. Specifically, there were four days in December 2011 and four days in January 2012
17 where the HDD actual number used by Southwest was one degree higher than the HDD
18 final number shown in the NCDC data. Thus, for Mr. Gaye's January 2012 bill, the actual
19 HDDs used to calculate his bill were 356, while the NCDC data showed 352 HDDs.
20 Similarly, for Mr. Gaye's February 2012 bill, the actual HDDs used to calculate his bill were
21 199, while the NCDC data showed 195 HDDs.

22
23 **Q. What is your understanding of the reason for this discrepancy?**

24 A. The data used by Southwest, and acquired from the vendor overnight, is the initial or
25 preliminary data, not the final data that the NCDC eventually arrives at. Thus, the NCDC at
26 times makes small adjustments to their data before it is considered final. The eight days

1 where there is a one degree variance in the HDD seem to be examples of such small
2 adjustments.

3
4 **Q. How would Mr. Gayer's bill have changed if Southwest had used 352 HDDs instead
5 of 356 HDDs to calculate his bill?**

6 A. Staff estimates that there would be no change to Mr. Gayer's January 2012 bill if Southwest
7 had used 352 HDDs instead of 356 HDDs in calculating his bill.

8
9 **Q. Is Staff concerned with small differences between the preliminary data used by
10 Southwest for billing purposes and the final NCDC data?**

11 A. While ideally Southwest could use final data for its billing purposes, Southwest does not
12 control how long it takes the NCDC to finalize its data and waiting for final NCDC data
13 could greatly complicate Southwest's billing processes. Given how close the preliminary and
14 final data appear to be, such a wait does not appear to be warranted. Further, it is worth
15 noting that weather data by its very nature is an estimate of the actual weather taking place in
16 a given district and even final data is only an approximation of weather in a given district.
17 Additionally, by the nature of the revenue decoupling mechanism, if the MWA recovers
18 slightly more or less revenue due to small discrepancies in the weather data, any resulting
19 lesser or greater recovery would be balanced out in the annual decoupling recovery
20 mechanism, which captures all variations not reflected in the MWA. Thus, Staff is not
21 concerned with the minor variations between the preliminary and final HDD data as reflected
22 in Mr. Gayer's January and February 2012 bill calculations.

23
24
25
26

1 **DID SOUTHWEST FOLLOW ITS TARIFF PAGES IN CALCULATING THE MWA**
2 **PORTION OF THE REVENUE DECOUPLING MECHANISM?**

3
4 **Q. In reviewing Mr. Gaye's January and February 2012 bills, did Staff evaluate whether**
5 **Southwest applied its tariff pages regarding the MWA, pages 92 and 93 in its tariff**
6 **book?**

7 A. Yes. Staff found that Southwest did apply its tariff pages 92 and 93 in calculating the MWA
8 (or Monthly Component as shown on the tariff pages). However, during Staff's review, a
9 number of what Southwest terms "checks and balances" were found. These are adjustments
10 made by Southwest after the mechanism described in the tariff pages is applied. These
11 checks and balances, while generally in concert with the purpose of the MWA to reflect only
12 weather sensitive usage, are not explicitly identified in Southwest's tariff pages.

13
14 **Q. Please describe these checks and balances.**

15 A. There are three checks and balances. One is the application of a regression analysis to
16 customer bills to try to ascertain whether there is additional consumption beyond what would
17 be expected based upon historical consumption by the customer over the past two years.
18 The regression analysis identifies the expected customer consumption, and if the actual
19 customer consumption is greater than the expected customer consumption, the expected
20 customer consumption is used to calculate the MWA.

21
22 The second check and balance, which Staff refers to as the "metered use cap" deals with
23 cases where the calculation of the MWA based upon the tariff pages and the regression
24 analysis results in a MWA which would be applied to more therms than the customer's
25 metered use for that month. In such a case, Southwest limits the MWA to only the metered
26 therms.

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The third check and balance, which Staff refers to as the “zero usage floor,” is similar to the first. The third check and balance deals with cases where the calculation of the MWA based upon the tariff pages results in an MWA which is applied to a negative number of therms for a customer for a given month. In such cases, Southwest applies the MWA to zero therms, rather than the negative number of therms.

Q. Was the use of these checks and balances authorized by the Commission?

A. Not that Staff is aware of. In response to a Staff data request, Southwest indicated that the checks and balances were not specifically acknowledged in the general rate case proceeding. As noted before, Staff believes that the checks and balances are generally consistent with the purpose of the MWA to reflect weather sensitive consumption.

Q. How widespread is the use of these checks and balances in Southwest’s Arizona service territory?

A. Southwest provided Staff with data on the last two winter heating seasons, 2012/2013 and 2013/2014. The table below summarizes the information provided by Southwest.

Heating Season	Percent of Customers Having a Weather Adjustment	Percent of Weather Adjustments Without Checks and Balances Impacting Bill	Percent of Weather Adjustments With Regression Analysis Impacting Bill	Percent of Weather Adjustments With Metered Use Cap Impacting Bill
2012/2013	96.8%	43%	56%	2%
2013/2014	96.4%	35%	59%	6%

18

1 Southwest has indicated that the zero usage floor check and balance has rarely been used.
2 Thus, a majority of Southwest customers who have an MWA are impacted by the regression
3 analysis and/or the metered use cap.
4

5 **Q. What kind of bill impact have the checks and balances had on Southwest customers**
6 **in comparison to if the checks and balances were not used?**

7 A. In response to a Staff data request, Southwest indicated that from November 2012 through
8 April 2013 customer bills would have been adjusted upward an average of \$16 per month
9 absent the checks and balances. The total additional charges to customers during that period
10 would have been \$94 million. From November 2013 through April 2014 customer bills
11 would have been adjusted upward an average of \$26 per month absent the checks and
12 balances. The total additional charges to customers during that period would have been \$159
13 million.
14

15 **Q. If the checks and balances were not in place and Southwest recovered more money**
16 **from customers via the MWA, would Southwest then increase its total revenue and**
17 **possibly its profits?**

18 A. Staff does not believe so, unless there is an unidentified problem elsewhere in the revenue
19 decoupling calculations. By design the annual revenue decoupling adjustment captures the
20 variations in customer usage that are not related to weather. If more (or less) money was
21 recovered through the MWA, that differential would be captured in the calculation of the
22 annual revenue decoupling adjustment. Thus it would be a zero sum exercise, with no
23 additional revenue in total for the Company, when considering the MWA and annual
24 adjustment together.
25

1 Staff would note that the annual decoupling adjustor was initially set in Decision No. 74252
2 (January 7, 2014) to credit money back to customers, a total of \$1,890,149, via a surcredit of
3 \$0.00387 per therm, beginning January 1, 2014. Staff would further note that on April 30,
4 2014, Southwest filed with the Commission for approval to refund a further \$11.6 million via
5 the annual decoupling adjustor, via a surcredit of \$0.02626 per therm.

6
7 The Commission has not issued a decision on this Southwest filing to date. Thus, to date, the
8 annual adjustor has reflected a crediting of money back to customers. To the extent the
9 MWA checks and balances are eliminated, it may result in a shift in the recovery of money
10 away from the MWA and through the annual adjustor instead. The net result would likely
11 increase winter bills and decrease summer bills.

12

13 **Q. What reason does Southwest give for applying the checks and balances?**

14 A. Southwest indicates in response to a Staff data request that “the purpose of the secondary
15 checks and balances is to avoid weather normalization adjustments to customer bills that are
16 not related to weather sensitive consumption.”

17

18 **Q. Is Staff sympathetic to Southwest’s goal of having the MWA only capture weather
19 sensitive consumption?**

20 A. Yes. As contemplated in Southwest’s last rate case, the MWA was intended to address
21 weather sensitive consumption, with the annual adjustment addressing all other changes in
22 consumption. Staff has not had the opportunity to fully explore the operation of the checks
23 and balances used by Southwest, but believes that in general that they do try to move
24 customers’ bills toward reflecting only weather sensitive consumption in the MWA.

25

1 **Q. Does Staff believe that Southwest should continue to use the three checks and**
2 **balances?**

3 A. Staff believes that the metered use cap and zero use floor checks, while not specifically
4 identified during Southwest's last rate proceeding, should nonetheless be retained by
5 Southwest in the calculation of the MWA. Staff believes that these two checks reflect
6 common sense in that usage used in calculating the MWA portion of a customer bill should
7 not be higher than what is metered or be less than zero. Staff believes that if customer bills at
8 times reflected usage numbers for calculating the MWA that are higher than the metered
9 usage in a given month or are negative, that such a result is likely to create greater customer
10 confusion than if these checks were retained. Use of these checks is also more easily
11 explained to customers.

12
13 Use of the regression analysis check is more problematical from Staff's perspective. This
14 check involves a set of calculations that are challenging to understand, particularly for
15 customers who inquire about how their bill is calculated, such as Mr. Gayer. Staff believes
16 that the complexities of the regression analysis check are more properly explored within a
17 general rate proceeding, where all of Southwest's rates are reviewed and the regression
18 analysis check could be more fully considered as part of an overall review of the revenue
19 decoupling mechanism and its various components.

20
21 **Q. Please summarize Staff's recommendations regarding the three checks and balances**
22 **Southwest has applied to the MWA.**

23 A. Staff recommends that Southwest amend its tariff pages to reflect that it uses the metered use
24 cap and the zero use floor checks. Staff further recommends that Southwest stop using the
25 regression analysis check in calculating the MWA until such time as the Commission
26 approves its use.

1 **Q. What would be the actual impact of Staff's recommendation on the calculation of the**
2 **MWA on customer bills?**

3 A. In response to a Staff data request and in discussions with Staff, Southwest has indicated that
4 application of the metered use cap and regression analysis checks is largely duplicative in that
5 they both adjust customer bills in a generally similar way. Thus, elimination of the regression
6 analysis check, in concert with retention of the metered use cap check, should, in general, not
7 greatly alter customer bills in comparison to how Southwest has calculated bills the last
8 couple years. This is of interest given that customers are sensitive to the size of their winter
9 bills and elimination of all the checks and balances would result in significant additional
10 collections from customers via the MWA in winter months if future years are similar to the
11 2012/2013 and 2013/2014 winters.

12
13 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

14
15 **Q. Please summarize your recommendations.**

16 A. Staff makes the following recommendations:

- 17 1. Staff recommends that Southwest amend its tariff pages to reflect that it uses the
18 metered use cap and the zero use floor checks.
- 19 2. Staff further recommends that Southwest stop using the regression analysis check in
20 calculating the MWA until such time as the Commission approves its use.

21
22 **Q. Do you have any changes to the recommendations that were included in your May 27,**
23 **2014 Direct Testimony?**

24 A. No. Those recommendations, in combination with the recommendations above comprise all
25 of Staff's recommendations in this matter.

- 1 **Q. Does this conclude your direct testimony?**
- 2 **A. Yes, it does.**

1 Copy of the foregoing mailed this
2 14th day of July, 2014, to:

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