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ARIZONA CORPORATION COMMISSION

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February 23, 2010

Re: Notice of Inquiry Regarding Utility Disincentives and Potential Decoupling for Arizona Utilities; Docket Nos. G-00000C-08-0314 and E-00000J-08-0314

To the Docket:

The Commission believes there is value in examining utility disincentives and decoupling as a possible additional tool for encouraging the development of energy efficiency programs in Arizona. Accordingly, the Commission is issuing this Notice of Inquiry ("NOI") to solicit input on utility disincentives and decoupling generally and identify specific issues related to developing appropriate frameworks in Arizona.

Several states have adopted decoupling programs to bolster their energy efficiency efforts and remove utility disincentives to this energy resource. While many of the decoupling efforts have focused on natural gas utilities, some have targeted electric utilities, with each effort reflecting the individual needs of the particular industry and interests of the particular state. Arizona's pending Energy Efficiency Standard ("RES") rules would require a 22 percent energy efficiency effort renewable by 2020.

Through this NOI the Commission hopes to receive stakeholder comment and input which will lead to future workshops addressing Utility Disincentives and Decoupling. The questions asked in this NOI are intended to serve as a foundation; however, stakeholders may take the opportunity to address other related issues which are not addressed in this NOI.

We look forward to reviewing the information provided to this docket, and to a fulsome and productive workshop process. It would assist the Commission if comments were filed in this docket by March 26, 2010.

Sincerely,

Kris Mayes
Chairman

Cc: Commissioner Gary Pierce
Commissioner Sandra Kennedy
Commissioner Paul Newman
Commissioner Bob Stump
Ernest Johnson
Steve Olea
Janice Alward
Lyn Farmer
Rebecca Wilder

Notice of Inquiry Regarding Addressing Utility Disincentives to Effective Implementation of Energy Efficiency Programs in Arizona; Docket Nos. G-00000C-08-0314 and E-00000J-08-0314

This Notice of Inquiry ("NOI") is being issued to address the question of whether and how rate structures should be altered, or other mechanisms adopted, in Arizona to encourage Arizona's electric and natural gas utilities to effectively implement the Commission's energy efficiency requirements, in particular the Energy Efficiency Standards currently under review through rulemaking. Pursuant to the Electric Energy Efficiency Standard, Arizona Electric Utilities would be required to achieve energy savings equal to 22 percent of their prior year's retail electric energy sales by the Year 2020. The Commission will soon consider a similar rule for the state's natural gas companies. Given the significant energy efficiency targets established by the Commission, and its prior commitment in these dockets to address the issue of financial disincentives associated with energy efficiency, we are requesting additional information that could assist the Commission in future proceedings, including workshops and a possible rulemaking.

Interested Parties should provide comments to the above listed dockets by March 1, 2010. Specifically, the Commission would appreciate interested Parties' responses to the following questions:

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

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?

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

    a. Should certain customer classifications be exempt?

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

5. What mechanism should be used for recovery of unrecovered 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?

    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?

    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?

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?

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

    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?

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.

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

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

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

    a. Revenue per Customer?

    b. Sales margin per Customer?

    c. Total margin revenue?

    d. Total class revenue?

    e. Usage per customer?

11. Should the Commission impose penalties for failure to meet specific designated DSM goals?

    a. Should the opportunity to have periodic rate adjustments be tied to meeting specific energy efficiency requirements?

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

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

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

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

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