

ACC Policy Statement Regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures

POLICY STATEMENTS

1. Diversity and utilization of both demand and supply side options for meeting Arizona's energy resource needs is beneficial and should be actively pursued by Arizona utilities as a way of moderating capital expenses, encouraging greater flexibility, ensuring reliability, and minimizing rate impacts and customer energy bills.
2. Arizona utilities should pursue all cost-effective energy efficiency and demand side management resources, and should meet Arizona's Electric and Gas Energy Efficiency Standards of at least 22% electric energy savings and at least 6% gas savings by 2020.
3. Revenue decoupling may offer significant advantages over alternative mechanisms for addressing utility financial disincentives to energy efficiency, as it establishes better certainty of utility recovery of authorized fixed costs and better aligns utility and customer interests. The Commission could also consider alternative methods for addressing utility financial disincentives. Some form of decoupling or alternative for addressing financial disincentives must be adopted in order to encourage and enable aggressive use of demand side management programs and the achievement of Arizona's Electric and Gas Energy Efficiency Standards, which will benefit ratepayers and minimize utility costs. These types of mechanisms offer short term and long term benefits: in the short term they allow for customer bill savings through increased energy efficiency, achieved through Commission-approved energy efficiency programs; in the long term they contribute to plant deferrals and may contribute to improvements in costs of capital.
4. While other decoupling models are appropriate in general, non-fuel revenue per customer decoupling may be well suited for Arizona as it responds to customer growth and is better suited to address the issues associated with customer growth. Utilities interested in revenue per customer decoupling must address whether new customers should be treated distinctly from existing customers.
5. Adoption of decoupling (or any other alternative mechanism that addresses utility disincentives to promoting energy efficiency) should not occur as a pilot, as this insufficiently supports demand side management efforts, discourages beneficial changes to rate design and is unlikely to encourage financial ratings improvements. In lieu of pilot adoption, an initial three-year review period should be utilized which allows for evaluation and redress of decoupling models and related issues. The initial review period should be within three years of adoption or until the company files its next rate case after a decoupling or alternative mechanism is approved. If Commission Staff is not able to conduct this review due to resource constraints, an independent evaluation contractor shall be hired by the utility.

6. Commitment to and early implementation of decoupling should precede significant decoupling-specific adjustments to cost of capital if a revenue per customer decoupling mechanism is approved for a utility. The review of the initial three-year period following adoption of revenue per customer decoupling should include analysis and discussion of possible adjustments to cost of capital to recognize any modified risk at the utilities, as well as benchmarking and comparisons to other utilities operating with revenue per customer decoupling.

7. Utilities are encouraged to develop customer rate designs that support energy efficiency and work well in tandem with decoupling (or alternative mechanisms). Utilities may propose preliminary rate designs for the initial three-year period, and the preliminary rate designs should be evaluated during the review of the initial period. Revisions to the preliminary rate designs based on the results of the review should be proposed for the subsequent period.

8. Full decoupling is preferable to partial decoupling as it contributes to greater rate stability which would encourage improvements in financial ratings, is administratively more manageable, and offers opportunities for rate relief following extreme weather events.

9. Weather normalization in the application of decoupling is discouraged because such normalization would reduce the size of decoupling surcredits to customers following an extreme weather event.

10. Decoupling adjustments should occur at least on an annual basis; however, parties may propose more current adjustments as this may provide ratepayers with weather related rate relief following extreme events.

11. Broad participation in decoupling is preferred; however, the unique characteristics of each utility may merit different treatment of some customer classes. Utilities should address any proposed distinct treatments and justify why certain customer classes may merit different treatment.

12. Decoupling adjustments should be blended and applied across customer classes to discourage dramatic changes experienced by any one class.

13. Decoupling adjustments applied in a manner to encourage energy efficiency are preferred, such as applying decoupling surcharges to rates and higher-usage blocks to encourage energy efficiency, and applying decoupling surcredits to reward customers who use less energy.

14. Collars or caps on decoupling adjustments should be designed to encourage gradualism, and to minimize the short-term effects on customers. If the decoupling adjustments are to occur on a monthly, quarterly, annual, or less-than-annual basis, the utility should propose a cap for the periodic decoupling adjustments. Customers should receive the full amount of any credit in a timely manner in the event that achieved

revenue per customer exceeds authorized revenue per customer. Therefore, it is not necessary to cap the amount of surcredit decoupling adjustments or credits to customers.

ORDER

A utility may file a proposal for decoupling or alternative mechanisms for addressing utility financial disincentives to energy efficiency, including revenue per customer decoupling, in its next general rate case. A utility filing such a proposal should address this policy statement in its filing and should use this policy statement as a guideline in development of its proposal.

Sincerely,



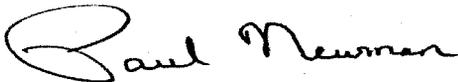
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