

Controlling Utility Costs - What To Do About Rising Bills? A SWEEP FAQ

What's the problem? Gas and electricity costs keep rising. Every year we send more than \$4 billion out of state to pay for our utilities. That's about half of what Arizona spends each year on health care. It's a drain on the economy and on our pocketbooks, and it means fewer jobs in Arizona. Power generation also dirties the air. This pollution sickens Arizonans and ups our health care costs by, for example, increasing asthma attacks. All of these expenses are expected to keep growing unless we find a way to rein them in.

What can we do? One of the least expensive solutions is to use energy more efficiently. Just as car owners can save on electricity and gas with simple fixes like patching leaks in their walls and changing air conditioner filters. Such actions can slash our utility bills immediately while making our homes more comfortable by eliminating drafts. Reducing energy waste also saves us money in the long run because it means we don't have to pay for the construction of new power plants.

What's stopping us? Most people lack the time, money or expertise to do energy conservation themselves, especially for those improvements that generate the biggest savings like installing insulation in our attics or having our air conditioners serviced. The other big barrier is that energy utilities don't want us to conserve.

Why not? Because they lose money when we conserve electricity and gas and make money when we waste it and use more. The more they sell, the higher their profits.

Can we do something to change this? Yes. We can modify utility companies' business models and require them to help us use energy more efficiently.

How do you modify utility companies' business models? By changing how they are allowed to make money. In 30 states, gas or electric companies practice what is called "decoupling." With decoupling, utility companies do not make money based on how much electricity or gas they sell. Instead, the amount of money they make is based on how well and how many customers they serve and how well they cut expenses.

How are rates determined with decoupling? Under the current system, most utility companies are allowed to charge a certain rate by the public utilities commission or here in Arizona, the Arizona Corporation Commission. This rate is set at exactly enough for them to cover the costs of delivering power safely and reliably and is based on projections, past experience, and a rigorous vetting processes. Under decoupling, rates are still based on these projections, experiences, and processes, but with a few caveats. If utility companies take in more revenue than determined sufficient, customers get a refund. Rates go down by a few percentage points. If utility companies take in less revenue than expected, rates go up by a few percentage points. Although the potential refund you get is unlimited, rate increases are constrained (for Southwest Gas it is constrained to no more than three percent.) Either way, utility companies revenues aren't tied to how much gas or electricity is used.

How will that impact my utility rates? Instead of your rates being steady and then suddenly jumping up dramatically because of a rate hike, changes in rates will be more gradual, changing slightly every month. When combined with conservation, your bill will go down even if your rates go up.

How? By making your home more efficient and reducing the amount of gas and electricity you need to buy. Last year, Arizona passed rules that require gas and electric companies to help customers use energy more efficiently. Decoupling makes these programs financially feasible by aligning customers' interests with utility

companies' interests, allowing utility companies to establish conservation programs that save us cash.

How do conservation programs work? Conservation programs can, for example, pay to have an energy professional come to your house, patch your leaks, change your air filters, program your thermostat and otherwise make your home more efficient and less drafty. That way you don't have to buy as much energy and more of your money stays with you and in our state. Over the long run, rates stay lower because utility companies don't have to build new power plants, which we pay interest on and are one of the most expensive items on electric bills. Decoupling on its own won't impact our bills, but when combined with effective conservation, our bills will go down.

How would these conservation programs be paid for? The conservation programs have to pay for themselves: Costs must be more than offset by savings. Conservation programs are analyzed and monitored to make sure they do this and stopped if they don't. Some of these programs require an initial investment that comes from ratepayer money, but that investment is less than the amount that ratepayers will save. The common sense behind these programs is easy to understand: When we use energy more efficiently, we will save money.

What's the other option? Do nothing. Under this scenario, our bills and our rates will go up dramatically in coming years but will increase slightly less in the short term. Arizonans will continue to send more and more money out of state. There will be fewer jobs and a weaker economy in Arizona, and it's less likely that we get rid of the drafts in our houses.

How do we know that decoupling and conservation really work? Decoupling and conservation programs have already been demonstrated to save money and energy in other states, and an independent, scientific analysis by the Lawrence Berkeley National Laboratory shows that ratepayers in Arizona would save billions of dollars with decoupling and conservation. The Arizona Corporation Commission also screens conservation programs to ensure that the benefits of these programs outweigh the costs. Decoupling and conservation programs will be monitored, and if they are ineffective, they will be stopped.

Do any conservation programs already exist? Yes. They are just ramping up, and you can take advantage of them:

- If you are an Arizona Public Service Company (APS) customer, you can find out more at: http://www.aps.com/main/green/choice/choice_20.html
- If you are a Southwest Gas customer, you can find out more at: <http://www.swgasliving.com/rebates?whoami=Homeowner>

What about impacts on low-income residents and seniors? Energy efficiency programs are available to low-income residents and seniors and will be especially beneficial for those on fixed incomes as they will leave more of the limited dollars available for other needs. There are also specific weatherization programs targeted at low-income residents. All of these will help seniors and low-income residents keep their utility bills more affordable.

What's the policy under consideration? Last year, the Arizona Corporation Commission unanimously adopted a policy statement on decoupling. This statement outlined how decoupling should best be implemented for Arizonans and Arizona using lessons learned from other states. The Commission is now considering the implementation of decoupling for two utilities -- Southwest Gas and Arizona Public Service Company -- using this policy statement as a guide. Final decisions are expected this fall and next spring.