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MEMORANDUM
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TO: THE COMMISSION

2006 MAR 24 P 3:43

FROM: Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: March 24, 2006

RE: APPLICATION TO RESET THE SOUTHWEST GAS CORPORATION DEMAND
SIDE MANAGEMENT ADJUSTOR RATE FOR MAY 2006 (DOCKET NO.
G-01551A-04-0876)

Commission Decision No. 60352 (August 1997) created the Demand Side Management ("DSM") adjustor mechanism, whereby Southwest Gas Corporation ("Southwest") files by the end of January each year with Staff to reset the DSM adjustor rate on April 1st of each year. Pursuant to the DSM adjustor mechanism, Southwest filed a request with Staff on January 31, 2006, to reset the DSM adjustor rate. Subsequently, the Commission issued its final decision on Southwest's general rate proceeding (Decision No. 68487, February 23, 2006), which now requires Commission approval of the annual revision to the DSM adjustor rate, increases DSM funding, and applies the DSM adjustor rate to all customer classes. These changes materially impact the DSM adjustor mechanism and require Southwest to make a new filing to adjust the DSM adjustor rate. On March 14, 2006, Southwest made a revised filing for Commission approval of the new DSM adjustor rate. Given the timing of the conclusion of the rate case in mid February, and Southwest's need to make a subsequent revised filing, the Commission, in Decision No. 68596 (March 23, 2006), extended the application of the current DSM adjustor rate for one additional month, through the April 2006 billing cycle.

Southwest's March 14, 2006 revised filing makes several adjustments to the previous January 31, 2006 filing, to reflect somewhat higher DSM spending in 2006, and Southwest also proposes several adjustments to how the DSM adjustor rate is administered. Southwest's two proposed changes to administration of the DSM adjustor rate are to apply the DSM adjustor rate to only residential customers in 2006 and adjust the DSM adjustor rate at the beginning of May every year, rather than just this year.

Historically, the DSM adjustor rate has been applied only to residential customers, at least in part because historically the DSM programs were only residential programs. As part of the expansion of DSM programs in the recent Southwest rate case, there will now be significant residential and commercial DSM programs, so Decision No. 68487 expanded applicability of the DSM adjustor rate to the other customer classes. Southwest's rationale for applying the DSM adjustor rate to only residential customers for the 2006 reset is that the only current DSM programs are residential programs, and it will take awhile to design, receive Commission approval of, and implement the new residential and commercial programs. While Staff recognizes that for at least part of 2006, only the two existing residential programs will be in

effect, the other programs will be implemented pursuant to provisions of Decision No. 68487, and the rate case order does specifically indicate that the other rate classes are to begin paying the DSM adjustor rate.

Regarding shifting the annual reset date for the DSM adjustor rate from April to May for more than 2006, Staff does not believe that there is a compelling reason to make such a change. April has been the normal reset date since the DSM adjustor rate was implemented in 1997. The recently concluded rate case retained the standard April implementation date and while there is reason for a one-time exception in 2006 due to the timing of the rate case conclusion, Staff believes that generally the reset date is an issue most appropriately dealt with in rate proceedings as part of an overall consideration of the DSM adjustor mechanism. While Staff is not necessarily opposed to changing the DSM adjustor rate reset date to May for every year, at this time Staff does not support any change in the reset date beyond the one-time, one-month shift adopted by the Commission recently due to the timing of the rate case conclusion.

Regarding the actual reset of the DSM rate, Southwest's March 14th application requests approval of a DSM adjustor rate of \$0.00246 per therm. Subsequently, Southwest communicated to Staff that its March 14th application contained an error in that it double counts the \$50,000 of customer bill assistance in estimating its 2006 DSM spending, resulting in a reduction in the estimated DSM spending in 2006 from \$800,000 to \$750,000. Southwest has indicated to Staff that it will make a further revised filing to correct for this error in calculation. On March 15, 2006, Southwest made an updated filing, correcting for the double counting error. For purposes of calculating the DSM adjustor rate at this time, Southwest's estimated 2006 DSM spending reflects the proposed increases in spending for the two existing residential DSM programs, the Energy Advantage Plus and Low Income Energy Conservation programs. Southwest's estimate is somewhat conservative, given that Southwest is expected to begin incurring costs to design and implement the new residential and commercial DSM programs in 2006. However, for the purposes of setting the DSM adjustor, Staff believes Southwest's estimate is reasonable. To the extent Southwest incurs some additional DSM costs beyond the projected \$750,000, these costs will be captured for recovery when the DSM adjustor rate is reset in 2007, since the DSM adjustor rate is reset each year.

Staff's calculations for the appropriate DSM adjustor rate in 2006 are similar to Southwest's, but differ in that they do not reflect a resetting of the DSM adjustor rate in May 2007 as proposed by Southwest, and Staff's calculations apply the DSM adjustor rate across all of Southwest's full margin customer classes. Under Staff's calculations, based upon an over-collected bank balance of \$339,578 as of the end of December 2005, the applicable DSM adjustor rate, applicable to all full margin customer classes from May 2006 through March 2007, would be \$0.00094 per therm. By comparison, if Southwest's proposal to apply the DSM adjustor rate to only residential customers were adopted, Staff calculates that the DSM adjustor rate from May 2006 through March 2007 would be \$0.00211 per therm.

THE COMMISSION

March 24, 2006

Page 3

Staff recommends approval of a DSM adjustor rate of \$0.00094 per therm for Southwest, applicable to all full margin customer classes, applicable to the May 2006 through March 2007 billing cycles.



Ernest G. Johnson

Director

Utilities Division

EGJ:RGG:lm\JG

ORIGINATOR: Robert G. Gray

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BEFORE THE ARIZONA CORPORATION COMMISSION

- JEFF HATCH-MILLER
Chairman
- WILLIAM A. MUNDELL
Commissioner
- MARC SPITZER
Commissioner
- MIKE GLEASON
Commissioner
- KRISTIN K. MAYES
Commissioner

APPLICATION TO RESET THE
SOUTHWEST GAS CORPORATION
DEMAND SIDE MANAGEMENT
ADJUSTOR RATE FOR MAY 2006

DOCKET NO. G-01551A-04-0876
DECISION NO. _____
ORDER

Open Meeting
April 4 and 5, 2006
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. Commission Decision No. 60352 (August 1997) created the Demand Side Management ("DSM") adjustor mechanism, whereby Southwest files by the end of January each year with Staff to reset the DSM adjustor rate on April 1st of each year.
3. Pursuant to the DSM adjustor mechanism, Southwest filed a request with Staff on January 31, 2006, to reset the DSM adjustor rate.
4. Subsequently, the Commission issued its final decision on Southwest's general rate proceeding (Decision No. 68487, February 23, 2006), which now requires Commission approval of the annual revision to the DSM adjustor rate, increases DSM funding, and applies the DSM adjustor rate to all customer classes. These changes materially impact the DSM adjustor mechanism and require Southwest to make a new filing to adjust the DSM adjustor rate.

1 5. On March 14, 2006, Southwest made a revised filing for Commission approval of
2 the new DSM adjustor rate. Given the timing of the conclusion of the rate case in mid February,
3 and Southwest's need to make a subsequent revised filing, the Commission, in Decision No. 68956
4 (March 23, 2006), extended the application of the current DSM adjustor rate for one additional
5 month, through the April 2006 billing cycle.

6 6. Southwest's March 14, 2006 revised filing makes several adjustments to the
7 previous January 31, 2006 filing, to reflect somewhat higher DSM spending in 2006, and
8 Southwest also proposes several adjustments to how the DSM adjustor rate is administered.
9 Southwest's two proposed changes to administration of the DSM adjustor rate are to apply the
10 DSM adjustor rate to only residential customers in 2006 and adjust the DSM adjustor rate at the
11 beginning of May every year, rather than just this year.

12 7. Historically, the DSM adjustor rate has been applied only to residential customers,
13 at least in part because historically the DSM programs were only residential programs. As part of
14 the expansion of DSM programs in the recent Southwest rate case, there will now be significant
15 residential and commercial DSM programs, so Decision No. 68487 expanded applicability of the
16 DSM adjustor rate to the other customer classes.

17 8. Southwest's rationale for applying the DSM adjustor rate to only residential
18 customers for the 2006 reset is that the only current DSM programs are residential programs, and it
19 will take awhile to design, receive Commission approval of, and implement the new residential
20 and commercial programs.

21 9. While Staff recognizes that for at least part of 2006, only the two existing
22 residential programs will be in effect, the other programs will be implemented pursuant to
23 provisions of Decision No. 68487, and the rate case order does specifically indicate that the other
24 rate classes are to begin paying the DSM adjustor rate.

25 10. Regarding shifting the annual reset date for the DSM adjustor rate from April to
26 May for more than 2006, Staff does not believe that there is a compelling reason to make such a
27 change. April has been the normal reset date since the DSM adjustor rate was implemented in
28 1997. The recently concluded rate case retained the standard April implementation date and while

1 there is reason for a one-time exception in 2006 due to the timing of the rate case conclusion, Staff
2 believes that generally the reset date is an issue most appropriately dealt with in rate proceedings
3 as part of an overall consideration of the DSM adjustor mechanism.

4 11. While Staff is not necessarily opposed to changing the DSM adjustor rate reset date
5 to May for every year, at this time Staff does not support any change in the reset date beyond the
6 one-time, one-month shift adopted by the Commission recently due to the timing of the rate case
7 conclusion.

8 12. Regarding the actual reset of the DSM rate, Southwest's March 14th application
9 requests approval of a DSM adjustor rate of \$0.00246 per therm.

10 13. Subsequently, Southwest communicated to Staff that its March 14th application
11 contained an error in that it double counts the \$50,000 of customer bill assistance in estimating its
12 2006 DSM spending, resulting in a reduction in the estimated DSM spending in 2006 from
13 \$800,000 to \$750,000. Southwest has indicated to Staff that it will make a further revised filing to
14 correct for this error in calculation. On March 15, 2006, Southwest made an updated filing,
15 correcting for the double counting error.

16 14. For purposes of calculating the DSM adjustor rate at this time, Southwest's
17 estimated 2006 DSM spending reflects the proposed increases in spending for the two existing
18 residential DSM programs, the Energy Advantage Plus and Low Income Energy Conservation
19 programs. Southwest's estimate is somewhat conservative, given that Southwest is expected to
20 begin incurring costs to design and implement the new residential and commercial DSM programs
21 in 2006. However, for the purposes of setting the DSM adjustor, Staff believes Southwest's
22 estimate is reasonable.

23 15. To the extent Southwest incurs some additional DSM costs beyond the projected
24 \$750,000, these costs will be captured for recovery when the DSM adjustor rate is reset in 2007,
25 since the DSM adjustor rate is reset each year.

26 16. Staff's calculations for the appropriate DSM adjustor rate in 2006 are similar to
27 Southwest's, but differ in that they do not reflect a resetting of the DSM adjustor rate in May 2007

28 ...

1 as proposed by Southwest, and Staff's calculations apply the DSM adjustor rate across all of
2 Southwest's full margin customer classes.

3 17. Under Staff's calculations, based upon an over-collected bank balance of \$339,578
4 as of the end of December 2005, the applicable DSM adjustor rate, applicable to all full margin
5 customer classes from May 2006 through March 2007, would be \$0.00094 per therm.

6 18. By comparison, if Southwest's proposal to apply the DSM adjustor rate to only
7 residential customers were adopted, Staff calculates that the DSM adjustor rate from May 2006
8 through March 2007 would be \$0.00211 per therm.

9 19. Staff has recommended approval of a DSM adjustor rate of \$0.00094 per therm for
10 Southwest, applicable to all full margin customer classes, applicable to the May 2006 through
11 March 2007 billing cycles.

12 CONCLUSIONS OF LAW

13 1. Southwest is an Arizona public service corporation within the meaning of Article
14 XV, Section 2, of the Arizona Constitution.

15 2. The Commission has jurisdiction over Southwest and over the subject matter of the
16 matter.

17 3. The Commission, having reviewed Staff's Memorandum dated March 24, 2006,
18 concludes that it is in the public interest to approve a DSM adjustor rate of \$0.00094 per therm for
19 Southwest, applicable to all full margin customer classes, applicable to the May 2006 through
20 March 2007 billing cycles.

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ORDER

IT IS THEREFORE ORDERED that a DSM adjustor rate of \$0.00094 per therm for Southwest, applicable to all full margin customer classes, applicable to the May 2006 through March 2007 billing cycles, be and hereby is approved.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN	COMMISSIONER
COMMISSIONER	COMMISSIONER
	COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2006.

BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:RGG:lhml

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2 DOCKET NO. G-01551A-04-0876

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