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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION
OF SOUTHWEST GAS CORPORATION –
FILING FOR APPROVAL OF ITS LOW-
INCOME ENERGY CONSERVATION
PROGRAM

DOCKET NO. G-01551A-04-0876

DECISION NO. 69405

ORDER

Open Meeting
April 11 and 12, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation (“Southwest”) is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission (“Commission”).

2. On June 26, 2006, Southwest filed an application for approval of its Low-Income Energy Conservation (“LIEC”) program, as required by Decision No. 68487. Decision No. 68487 required that the Company file detailed descriptions of its demand-side management (“DSM”) programs within 120 days of the Commission’s February 23, 2006 Order approving rate changes effective March 1, 2006.

3. The proposed LIEC program is an expansion and modification of an ongoing weatherization program begun in 1998. In June 2004, Decision No. 67111 granted Southwest a three-year extension of the LIEC program through June 2007. Southwest has proposed an increase ...

1 in the overall budget, from \$350,000 to \$500,000. Of the proposed \$150,000 increase, \$50,000
2 would fund emergency bill assistance, while \$100,000 would go to increase funding for
3 weatherization and related activities.

4 4. The LIEC program is one of six DSM programs included in Southwest's 2006
5 Arizona Demand Side Management Program Plan ("Plan").

6 5. The LIEC program provides weatherization, health and safety improvements and
7 emergency bill assistance to Southwest customers with household incomes of 150 percent, or less,
8 of the Federal Poverty guidelines. The Arizona Energy Office ("AEO") works in conjunction with
9 Southwest to administer the weatherization and health and safety components of LIEC, while the
10 Arizona Community Action Association ("ACAA") administers the emergency bill assistance
11 component.

12 6. The weatherization program provides consumer education and assists low-income
13 customers in improving the energy efficiency of their homes. Weatherization both conserves
14 energy and helps low-income customers lower their energy bills on a long-term basis. Measures
15 include: (i) replacement of broken or missing windows, leaking hot water valves and deteriorated
16 duct systems; (ii) repair or relocation of thermostats; (iii) installation of low flow shower heads
17 and storm windows; (iv) enhancement of building thermal shells; and (v) improvements to heating
18 and cooling systems. The weatherization program also provides funding for training of the
19 community action agency ("CAA") personnel who oversee the program.

20 7. Southwest proposes to increase the limit on expenditures per household from
21 \$1,500 to \$3,000. (The Arizona Public Service ("APS") limit per home is \$6,000.) This will
22 allow agencies to install more cost-effective measures, particularly in homes where HVAC
23 replacement is cost-effective and other funding is limited. The current and proposed limits can be
24 exceeded with prior approval.

25 8. Renters are eligible for weatherization, with permission from their landlords and
26 where there is a signed agreement not to raise the rent for at least a year following weatherization.

27 9. In addition, Southwest allocates \$60,000 annually to special multi-family
28 weatherization projects; the highly cost-effective nature of these projects helps to improve the

1 cost-effectiveness of the LIEC program as a whole and compensates for less energy-efficient
2 health and safety measures (below) undertaken as part of weatherization activities.

3 10. Up to 25 percent of the annual weatherization budget can be spent to address health
4 and safety needs in LIEC program participants' homes; AEO and Southwest agree that this
5 simplifies the process and still allows the overall program to remain cost-effective. Health and
6 safety measures include replacement of heating systems, space heaters and gas air conditioners in
7 cases where units are inoperable and: (i) can not be repaired, and (ii) result in unhealthy or unsafe
8 environments. Other health and safety measures include smoke alarms, replacement of kitchen
9 stoves and replacement of worn out water heater tanks.

10 11. The program plan states that up to 25 percent of the annual budget can be spent on
11 health and safety measures, but includes the phrase "without prior approval." Southwest has
12 confirmed that health and safety spending can go above the 25 percent cap for individual units,
13 with the prior approval of AEO and Southwest, but only as long as the overall program maintains
14 cost-effectiveness and the 25 percent cap is maintained for the program as a whole. Southwest
15 notes that the 25 percent cap on overall health and safety spending has not been exceeded since the
16 program's inception.

17 12. Staff has recommended that health and safety spending be maintained at 25 percent
18 or less of program funds, in accordance with Decision No. 67111, unless prior approval is obtained
19 from the Commission.

20 13. The new emergency bill assistance component of the LIEC program is intended as a
21 short-term aid to low-income Southwest customers in crisis due to: (i) sudden loss of income; (ii)
22 non-utilization of appliances, such as furnaces or water heaters, resulting in a danger to health; or
23 (ii) unexpected expenses, including medical. Southwest has proposed that emergency bill
24 assistance provide up to \$200 per year to pay natural gas bills and deposits.

25 14. Staff has recommended that the annual emergency bill assistance limit be increased
26 to \$400. The APS emergency bill cap has been approved at \$400, and UNS Gas has requested
27 within its rate case application a \$400 limit for the emergency bill assistance component of its
28 weatherization program.

15. LIEC program costs are recovered through Southwest's DSM adjustor, as are the costs for Southwest's other DSM programs. The proposed budget for the expanded and modified low-income energy conservation program is detailed in Table 1, below:

Table 1
Low-income Energy Conservation Budget

Budget Category	Current Budget	Annual Budget Amount	Amount of Increase
<i>Weatherization/Health/ Safety Components of LIEC Program</i>			
Implementation			
Weatherization	\$167,500	\$200,500	\$33,000
Health and Safety	60,000	93,000	33,000
Special Projects	60,000	60,000	0
Training and Monitoring Costs	10,000	20,000	10,000
Subtotals, Implementation, Training and Monitoring	\$297,500	\$373,500	\$76,000
Program Support			
Administration – Arizona Energy Office ¹	17,500	22,500	5,000
Community Action Agencies ²	35,000	45,000	10,000
Information/Outreach – Southwest ³	n/a	9,000	9,000
Subtotals, Program Support	52,500	76,500	24,000
Totals for weatherization/heath and safety components	\$350,000	\$450,000	\$100,000
<i>Emergency Bill Assistance Component of LIEC Program</i>			
Implementation			
Emergency Bill Assistance ⁴	n/a	45,000	45,000
Program Support			
Administration – Arizona Community Action Association ⁵	n/a	5,000	5,000
Totals for bill assistance alone	n/a	\$50,000	\$50,000
Totals for weatherization, health/safety and bill assistance	\$350,000	\$500,000	\$150,000

¹ AEO subcontracts with community action agencies to receive funding under the LIEC program. See Table 2 for agencies and amounts. AEO maintains the weatherization database, reviews every invoice to verify the charges are correct, designs training courses, provides training and evaluates personnel who are responsible for weatherization.

² The types of expenses that can be charged to this category have been expanded from day-to-day administrative costs, such as labor, insurance and office supplies, to include gasoline, tools and additional or new testing equipment. This was done at the request of participating agencies.

³ This new budget category includes bill inserts and an annual low-income round table with community action agencies, the AEO and the ACAA.

⁴ ACAA allocates \$5,000 to each of the following community action agencies: Community Action Human Resources Agency (CAHRA – Eloy), Gila County Health and Community Services, Maricopa County Human Services, Mesa Community Action Network Inc., Pima County Community Action Association, Southeastern Arizona Community Action Program, Tucson Urban League, Western Arizona Council of Governments and City of Phoenix Human Services.

⁵ ACAA receives 10% for administration.

16. For the weatherization and health and safety components of LIEC, program support costs are 17 percent of the budget. The program support cost for the emergency bill assistance component is 10 percent. Combined, the program support costs are 16.3 percent of the total budget.

1 17. AEO manages the Department of Energy's ("DOE") Weatherization Assistance
 2 Program. AEO includes LIEC funds from Southwest in its contracts with community action
 3 agencies directly performing weatherization services in Southwest's territories. The community
 4 action agencies and respective amounts are listed in Table 2, below.

5 Table 2
 6 LIEC Weatherization
 Funding by Agency

Agency	Current Funding	Proposed Funding	Amount of Increase
City of Phoenix	\$95,000	\$118,475	\$23,475
Maricopa County Human Service Dept.	\$85,500	\$106,627	\$21,127
Tucson Urban League	\$20,520	\$25,387	\$4,867
Pima County	\$7,980	\$11,509	\$3,529
Southeastern Arizona Community Action Partnership	\$9,975	\$12,186	\$2,211
Western Arizona Community Action Partnership	\$12,825	\$15,910	\$3,085
Gila County	\$22,800	\$28,434	\$5,634
Community Action Human Resource Agency	\$11,400	\$14,217	\$2,817
City of Mesa	\$4,750	\$5,755	\$1,005
Total Distributed to Agencies for Weatherization	\$270,750	\$338,500	\$67,750
AEO (Admin., Training and Special Project) ¹	\$79,250	\$102,500	\$23,250
Southwest Gas (Outreach and Information)	n/a	\$9,000	\$9,000
Total	\$350,000	\$450,000	\$100,000

¹The \$79,250 is expected to be spent as follows: \$17,500 for AEO Administration and \$10,000 for training (these were the budgeted amounts). \$60,000 was budgeted for special projects, but only \$51,750 of that amount is expected to be spent on special projects. The difference, \$8,250, was allocated back to weatherization of single family homes.

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 20 18. Because AEO does not distribute emergency bill assistance funding, Southwest has
 21 contracted with ACAA to administer this component of the LIEC program. ACAA has, in turn,
 22 subcontracted with nine community action agencies to distribute the emergency bill assistance
 23 funding (see Table 1, fn. 4, for a listing of these agencies). Each of the nine agencies receives
 24 \$5,000, allowing for use of the funds across Southwest's service areas.

25 19. In order to market the LIEC program, Southwest utilizes the following: (i)
 26 quarterly bill inserts in English and Spanish; (ii) website promotion; (iii) annual meetings with
 27 community agencies; (iv) attendance at community events; and (v) annual reminder letters sent to
 28 approximately 150 community agencies. (These outreach efforts include information on

1 Southwest's low-income rate assistance program.) Southwest plans to add information on the
2 emergency bill assistance program to the above marketing efforts.

3 20. Southwest included copies of its Low Income Rate Assistance ("LIRA") insert with
4 its most recent semi-annual DSM report to the Commission. Staff has recommended that
5 Southwest continue this practice, but also include any marketing materials relating to the
6 weatherization, health and safety and new emergency bill assistance components of the LIEC
7 program.

8 21. The program plan states that a minimum of 10 percent of weatherization project
9 undergo on-site inspections. Southwest's semi-annual report for the 2005-2006 program year
10 indicates that AEO performed field inspections on approximately 15 percent of the completed
11 projects and reviewed all of the technical reports submitted by its contracted agencies.

12 22. AEO created a weatherization database now used by contracted agencies to input
13 weatherization and client data, easing program analysis. The input data primarily consists of
14 measurements taken prior to, and following, weatherization of each home. Southwest reviews the
15 data on a periodic basis. (AEO controls and limits access to the database and personal information
16 is limited. The contracted agencies can further limit access to the database.)

17 23. Southwest's most recent semi-annual report states that performance reviews have
18 been instituted to evaluate agency personnel responsible for the statewide weatherization program.
19 These reviews are used to indicate the need for more one-on-one training and technical assistance.

20 24. After the first year of the emergency bill assistance program, Southwest and ACAA
21 will review funding to determine whether reallocation is necessary. Staff has recommended that
22 funding be reviewed to ensure that any unspent emergency bill assistance funding is allocated back
23 to weatherization.

24 25. The weatherization program provides in-home consumer training to LIEC program
25 participants regarding energy efficiency; this increases savings and results in longer-term savings.

26 26. In addition to in-home consumer education, Southwest allocates a portion of
27 weatherization funds to AEO's training program; the topics include: (i) pressure diagnostics; (ii)

28 ...

1 health and safety; (iv) applied building science; (iv) residential analysis software; (v) fiscal and
2 technical procedures and (vi) on-line training on building codes and building science issues.

3 27. Based on the four most commonly installed measures, Staff calculated the cost-
4 effectiveness of Southwest's LIEC program at 1.24. (A number above 1 is considered cost-
5 effective, while a number below is considered not cost-effective.) Staff estimates the societal costs
6 of the weatherization component to be \$385,896 over the lives of the measures for 300 houses to
7 be weatherized in a year. Staff estimates the societal benefits to be \$480,174, for net societal
8 benefits of \$94,278.

9 28. Taking into consideration the avoided environmental costs, cost-effectiveness
10 would be somewhat higher. Southwest has listed estimated environmental benefits and reductions
11 in carbon dioxide, nitrogen oxide and sulfur oxide emissions, along with reduced water
12 consumption (see Appendix D, 2006 Arizona Demand Side Management Program Plan).

13 29. The health/safety and bill assistance components of the LIEC program provide
14 benefit to Southwest customers; these components are not primarily designed to produce energy
15 savings, and were not included in the cost-benefit analysis.

16 30. Southwest estimates that, on an annual basis, homes weatherized under its LIEC
17 program reduced gas usage by 17.5 percent and heating costs by 31 percent.

18 31. In its semi-annual demand-side management report, filed September 30, 2006,
19 Southwest provided program results for the July 1, 2005 through June 30, 2006 program year.
20 Through the program, 240 homes were weatherized at a cost of \$288,382. The installed energy
21 efficiency measures primarily consisted of (i) duct repair; (ii) infiltration control; (iii) attic
22 insulation; and (iv) replacement of inoperable or hazardous natural gas furnaces. In addition,
23 Southwest participated in selecting and funding a multi-unit special project for the year, a HUD-
24 subsidized 67-unit apartment complex in Phoenix. Southwest contributed \$55,195 to the total
25 budget of \$80,444 (funding for the special project also came from APS and government sources.).
26 Southwest estimated the cost to benefit ratio for the special project was 1.68.

27 32. Southwest reports on the status of the Low-Income Energy Conservation program
28 in its semi-annual DSM reports filed with the Commission. DSM-related matters reported on by

1 Southwest include: (i) program activity; (ii) promotion and outreach; (iii) program costs; (iv)
2 special projects; (v) training and education; and (vi) inspections.

3 33. Southwest's current demand-side management report does not separately report
4 health and safety costs. Staff has recommended that, going forward, health and safety spending be
5 reported as a separate category, so these costs can be tracked.

6 34. In the future, the LIEC reports should also include the following information on the
7 new emergency bill assistance component: (i) the number of households receiving emergency bill
8 assistance, by area, (ii) the amount left over in emergency bill assistance funding, if any; and (iii)
9 the amount of unspent emergency bill assistance funding allocated back to weatherization, if any.
10 In addition to returning any unspent funds to the weatherization program, in accordance with
11 Decision No. 68487, this information will assist in determining how future funding should be
12 allocated.

13 35. Staff has recommended that Southwest and ACAA carefully monitor and track
14 usage of the \$5,000 emergency bill assistance allocations and recommends that the annual limit
15 per customer be increased to \$400.

16 36. Southwest includes copies of its LIRA insert with its semi-annual DSM reports
17 filed with the Commission. Staff has recommended that Southwest continue this practice, but also
18 include any marketing materials relating to the weatherization, health and safety and new
19 emergency bill assistance components of the LIEC program.

20 37. Staff has further recommended that Southwest continue to report on the status of
21 the Low-Income Energy Conservation program in its semi-annual DSM reports. Going forward,
22 the reports should also include the following information on the new emergency bill assistance
23 component: (i) the number of households receiving emergency bill assistance, by area, (ii) the
24 amount left over in emergency bill assistance funding, if any; and (iii) the amount of unspent
25 emergency bill assistance funding allocated back to weatherization, if any.

26 38. Staff has also recommended that Southwest separately report health and safety
27 spending in its semi-annual DSM reports filed with the Commission. Staff has also recommended
28 ...

1 that health and safety spending be maintained at 25 percent or less of program funds, in
2 accordance with Decision No. 67111, unless prior approval is obtained from the Commission.

3 39. In addition, Staff has recommended that the major focus of the LIEC program and
4 its components, including significant revisions to its budget categories, not be changed without
5 Commission approval.

6 CONCLUSIONS OF LAW

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

9 2. The Commission has jurisdiction over Southwest and over the subject matter of the
10 application.

11 3. The Commission, having reviewed the application and Staff's Memorandum dated
12 March 28, 2007 concludes that it is in the public interest to approve the Low-Income Energy
13 Conservation program.

14 ORDER

15 IT IS THEREFORE ORDERED that Southwest's Low-Income Energy Conservation
16 program be and hereby is approved as discussed herein.

17 IT IS FURTHER ORDERED that Southwest and ACAA carefully monitor and track usage
18 of the \$5,000 emergency bill assistance allocations and that the annual limit per customer be
19 increased to \$400.

20 IT IS FURTHER ORDERED that Southwest continue including copies of its LIRA insert
21 with its semi-annual DSM reports, but also include any marketing materials relating to the
22 weatherization, health and safety and new emergency bill assistance components of the LIEC
23 program.

24 IT IS FURTHER ORDERED that Southwest continue to report on the status of the Low-
25 Income Energy Conservation program in its semi-annual DSM reports. Going forward, the reports
26 should also include the following information on the new emergency bill assistance component:
27 (i) the number of households receiving emergency bill assistance, by area, (ii) the amount left over

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1 in emergency bill assistance funding, if any; and (iii) the amount of unspent emergency bill
2 assistance funding allocated back to weatherization, if any.

3 IT IS FURTHER ORDERED that Southwest separately report health and safety spending
4 in its semi-annual DSM reports filed with the Commission and that health and safety spending
5 shall be maintained at 25 percent or less of program funds, in accordance with Decision
6 No. 67111, unless prior approval is obtained from the Commission.

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1 IT IS FURTHER ORDERED that the major focus of the LIEC program and its
2 components, including significant revisions to its budget categories, not be changed without
3 Commission approval.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

James S. Gleason
CHAIRMAN

William A. Mandel
COMMISSIONER

Jeffrey R. Hatch-Miller
COMMISSIONER

R. M. [Signature]
COMMISSIONER

Gary [Signature]
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 16th day of April, 2007.

[Signature]
BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:JMK:lhmk/KSC

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DOCKET NO. G-01551A-04-0876

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