

ORIGINAL

OPEN MEETING



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**MEMORANDUM
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414

Arizona Corporation Commission

DOCKETED

TO: THE COMMISSION 2007 JUN 12 P 12: 05

FROM: Utilities Division AZ CORP COMMISSION
DOCKET CONTROL

JUN 12 2007

DATE: June 12, 2007

DOCKETED BY

RE: SOUTHWEST GAS CORPORATION – APPLICATION FOR APPROVAL OF THE HIGH-EFFICIENCY PRE-RINSE SPRAY VALVE COMPONENT OF ITS COMMERCIAL EQUIPMENT PROGRAM (A DEMAND SIDE MANAGEMENT PROGRAM) (DOCKET NO. G-01551A-04-0876)

On June 26, 2006, Southwest Gas Corporation (“Southwest”) filed an application for approval of its Commercial Equipment (“Commercial Equipment”) program, as required by Decision No. 68487. Decision No. 68487 required that the Company file detailed descriptions of its DSM programs within 120 days of the Commission’s February 23, 2006 Order approving rate changes effective March 1, 2006.

The proposed program component would be newly-implemented. High-efficiency pre-rinse spray valve distribution is part of the Commercial Equipment program, one of seven demand-side management (“DSM”) programs included in Southwest’s 2006 Arizona Demand Side Management Program Plan (“Plan”).

Program Description

As proposed in the Plan, the Arizona Department of Water Resources (“ADWR”) will distribute high-efficiency pre-rinse water spray valves to commercial customers, with Southwest providing \$124,925 in financial assistance for distribution of up to 5,000 of the spray valves in its service areas. (Pre-rinse spray valves are used to remove food residue from dishes.) The high-efficiency spray valves will be available, at no cost, to both new and existing commercial customers with kitchen facilities, including restaurants, schools, and hospitals.

Initially, Southwest intended to end distribution once the new valves became mandatory, in 2008. Under Arizona law, as of January 1, 2008, new commercial pre-rinse spray valves sold, offered for sale or installed must have “a flow rate equal to or less than 1.6 gallons per minute.” A.R.S. 44-1375, *et seq.* In its initial data response, Southwest states that it will explore continuing the program for existing commercial customers using non-high-efficiency spray valves installed prior to the change in law.

Staff recommends that Southwest continue the program into 2008 and 2009, if participation is high and the program is cost-effective. Although newly installed spray valves would have to meet the new standards after 2008, many of the non-energy-efficient spray valves could remain in service for a number of years, and continuing the program could speed their

replacement. If the program is effective and ADWR does not choose to continue distribution, Southwest should consider including the spray valves in its Commercial Equipment incentive program, if the remainder of the Commercial Equipment program is approved.

Objective, Market Segment and Rationale

The objective of the spray valve distribution is to increase use of high-efficiency valves in the commercial sector, and create both energy and water savings. It is stipulated in ADWR's contract with the installer that the high-efficiency valves will be installed only on existing hot water rinse or wash applications using water temperatures of 100° F or above, and with flow rates of 2.5 gallons per minute or above; this ensures that DSM funds will be used to create energy savings, as well as water savings, through replacement of high-flow valves using heated water.

The spray valve distribution is also part of the Commercial Equipment program, one aim of which is to achieve market transformation of the restaurant industry, by promoting energy efficiency and increasing demand for high-efficiency equipment.

Marketing

According to the Plan, during its first year the Commercial Equipment program as a whole, including the high-efficiency spray valves, will be advertised in restaurant trade publications, on the Southwest website and on postcards distributed at food industry and culinary events and at trade shows. There will also be seminars and workshops designed to train chain and franchise owners on high-efficiency equipment and maintenance.

The above marketing will continue in the second and third years, with the addition of educational events at the Southwest Tempe Food Service Center. Staff recommends that Southwest continue to promote high-efficiency spray valves as part of its marketing, if Southwest's participation in the spray valve distribution is extended beyond 2007.

Estimated Level of Participation

The high-efficiency pre-rinse water spray valve component of the Commercial Equipment program proposes to fund distribution of an estimated 5,000 new high-efficiency valves during 2007. Southwest estimates the actual market potential for the spray valves at 18,000.

Program Budget

The DSM portfolio, including the Commercial Equipment program, is funded through the Demand Side Management ("DSM") Adjustor Mechanism paid by full-margin customer classes. The budget for the high-efficiency pre-rinse water spray valve component of the Commercial Equipment program is \$174,000 for 2007, with a cost to the program of \$34.80 per spray valve installed (if 5,000 spray valves are installed). (Under Staff's recommendation, below, the cost

would be \$34.10.) The spray valves are obtained by ADWR directly from the manufacturer and cost \$22.50 each, plus tax, with free shipping. Southwest has included \$124,925 in the budget for 5,000 spray valves. The remaining \$49,075 represents a weighted allocation of the estimated total overhead/marketing costs¹ for the Commercial Equipment program as a whole.

The contract employee responsible for processing rebates will do minimal work with respect to the high-efficiency spray valve component of the Commercial Equipment program. For this reason, Staff recommends that the cost of the contract employee be removed from the allocation for the high-efficiency spray valves. This will bring the overhead costs to \$45,563; rounded up to \$45,575, the budget for the first year of the high-efficiency spray valve component would be \$170,500.²

Southwest is not providing ADWR with any administrative funding. Funding provided by Southwest to ADWR will be used only for the purchase of additional spray heads for distribution in Southwest's territory.

While marketing costs represent a large proportion of the budget, the program is new and extensive marketing may aid in fostering acceptance of the high-efficiency spray valves in an industry with significant barriers to adoption of energy-efficient equipment. One factor in higher marketing costs is that advertising in publications geared specifically for the restaurant industry is more expensive than advertising in publications for the general public. In addition, educational activities, and participation in trade shows and industry events featuring high-efficiency equipment, are necessary for reaching potential end-users of such equipment. Staff recommends that Southwest monitor the marketing in order to track its effectiveness, and that the marketing be adjusted, if necessary, to maximize the benefits of spending in this area.

Delivery Strategy

The high-efficiency spray valves will be distributed through the Arizona Department of Water Resources.

Monitoring and Evaluation

With respect to the high-efficiency spray valve component, specifically, ADWR hired SBW Consulting, Inc. to track the greater number of high-efficiency spray valve installations made possible by funding from Southwest and Salt River Project programs. The consultant will track water usage for each participant for a year following installation; this process will also confirm that the spray valves installed under the program remain in place. Staff recommends

¹ Overhead costs consist of Communication, including magazine, Internet and radio advertisements; Outreach Events, including trade shows and culinary events; and Training and Education, including seminar, demonstrations and workshops.

² \$124,925 (direct cost of spray valves) ÷ \$721,778 (rebates, including direct cost of spray valves) = .1731 x 263,220 (overhead cost - \$15,000 for contract employee to process rebates) = \$45,563, rounded up to \$45,575; \$45,575 + 124,925 = \$170,500.

that Southwest work with ADWR to ensure that energy savings are also tracked in the program study.

With respect to the high-efficiency commercial appliances generally, Southwest will assess the program by tracking participation, energy savings and demand reductions, along with inquiries, website hits and attendance at food industry energy conservation events. In addition, participants will be surveyed regarding the effectiveness of the program.

Staff Analysis

The distribution of high-efficiency pre-rinse water spray valves to locations with moderate water pressure and a high level of heated-water usage has the potential to increase energy efficiency and water savings for schools, other public institutions and commercial enterprises.

Studies have shown that high-efficiency pre-rinse valves have experienced problems with performance at either high or low water pressures, or when used on round sinks. Staff recommends that distribution should be geared toward locations with moderate water pressure and standard commercial sinks.

In addition, an SBW Consulting study done for the California Urban Water Conservation Council ("CUWCC")³ has shown that distribution of high-efficiency pre-rinse spray valves to groceries negatively impacted the cost-effectiveness of their installation program. This was due to groceries' limited use of spray heads. Additional reduction in cost-effectiveness occurred because a small percentage of spray heads claimed to have been installed were not, in fact, installed. Staff recommends that Southwest work with ADWR to ensure that distribution of the spray valves be restricted to locations where spray valve usage is high, and that oversight of the program include verification of installation.

Cost-Benefit Analysis

The ratio of benefits to costs cited by Southwest for the Commercial Equipment program as a whole is 7.35⁴, while Southwest estimates the cost-effectiveness ratio for the spray valve distribution alone at 69.30. This estimate utilizes therm and kWh savings that appear high, in light of the field results currently available. Moreover, research indicates that the useful life of a pre-rinse spray valve may be from 1 to 10 years, with five years cited as the usual useful life span, while Southwest's estimate (supplied to ADWR by the manufacturer) is seven years. Staff estimates, using both life spans and more conservative savings cited by the SBW Consulting study, still indicate cost-effectiveness for the Southwest program component: 6.51 for a seven-year useful life span and 4.45 for a five-year useful life span. Cost-effectiveness is potentially higher for a program targeting higher-usage participants.

³ Impact and Process Evaluation Final Report, for California Urban Water Conservation Council, 2004-5 Pre-Rinse Spray Valve Installation Program (Phase 2), Submitted by SBW Consulting, Inc., February 21, 2007.

⁴ A number above 1 is considered cost-effective; a number below 1 is not considered cost-effective.

Southwest's estimates of the environmental benefits are in the table below. Studies differ on the actual water savings, with estimates as high as 50,000 gallons per valve, per year (below). An estimate from an October 2006 CUWCC memo, combining data from five studies, cited more conservative estimates of between 10,000 and 45,000 gallons per year, per spray valve.⁵

ENVIRONMENTAL BENEFITS (Based on seven-year useful life span)

Annual Savings	CO ₂ (lbs)	NO _x (lbs)	SO _x (lbs)	H ₂ O (gallons)
2007	7,764,950	1,450	36	251,972,992
2008	0	0	0	0
2009	0	0	0	0
Lifetime Savings	54,354,648	10,195	255	1,763,810,941

Reporting Requirements

Staff recommends that information on the high-efficiency pre-rinse spray valve component of the Commercial Equipment program be included in the semi-annual DSM reports, and this information should include: (i) the number of participants, (ii) the amount of funding provided to ADWR, (iii) the amount spent on marketing, (iv) samples of its marketing materials, (v) the types of facilities where spray valves are being installed, and (vi) the SBW Consulting study tracking the spray valve distribution program, and any other information provided by ADWR regarding the effectiveness of the spray valve component of the Commercial Equipment program.

Other Information

Currently, Southwest has a low-income weatherization program in California which is run through community action agencies. This weatherization program is the only approved energy efficiency program conducted by Southwest in another state. In past years, Southwest conducted a number of conservation/DSM program in Nevada, but there are no approved DSM programs in Nevada at this time.

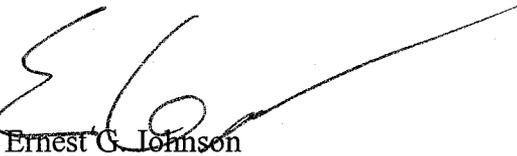
Summary of Staff Recommendations

Staff recommends approval of the high-efficiency pre-rinse spray valve component of the Commercial Equipment program with the following requirements:

- Staff recommends that Southwest continue the program into 2008 and 2009, if participation in the program is high and the program is cost-effective. If the program is effective and ADWR does not choose to continue distribution, Southwest should consider including the spray valves in its Commercial Equipment incentive program, if the remainder of the Commercial Equipment program is approved.

⁵ Average Water Savings of PBMP Devices, to CUWCC, from David Mitchell, M.Cubed, October 16, 2006.

- Staff recommends that Southwest continue to promote high-efficiency spray valves as part of its marketing, if Southwest's participation in the high-efficiency spray valve distribution is extended beyond 2007.
- Staff recommends that the cost of the contract employee responsible for processing rebates be removed from the allocation for the pre-rinse valves. This will bring the overhead costs to \$45,563; rounded up to \$45,575, the budget for the first year of the pre-rinse spray valve component should be \$170,500.
- Staff recommends that Southwest monitor the marketing in order to track its effectiveness, and that the marketing be adjusted, if necessary, to maximize the benefits of spending in this area.
- Staff recommends that Southwest work with ADWR to ensure that energy savings are also tracked in the program study.
- Staff recommends that the spray valve distribution should be geared toward locations with moderate water pressure and standard commercial sinks.
- Staff recommends that Southwest work with ADWR to ensure that distribution of the spray valves be restricted to locations where spray valve usage is high, and that oversight of the program include verification of installation.
- Staff recommends that information on the high-efficiency pre-rinse spray valve component of the Commercial Equipment program be included in the semi-annual DSM reports, and this information should include: (i) the number of participants, (ii) the amount of funding provided to ADWR, (iii) the amount spent on marketing, (iv) samples of its marketing materials, (v) the types of facilities where spray valves are being installed, and (vi) the SBW Consulting study tracking the spray valve distribution program, and any other information provided by ADWR regarding the effectiveness of the spray valve component of the Commercial Equipment program.



Ernest G. Johnson
Director
Utilities Division

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ORIGINATOR: Julie McNeely-Kirwan

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION)
OF SOUTHWEST GAS CORPORATION –)
FILING FOR APPROVAL OF THE HIGH-)
EFFICIENCY PRE-RINSE WATER SPRAY)
VALVE COMPONENT OF ITS)
COMMERCIAL EQUIPMENT PROGRAM)

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

Open Meeting
June 26 and 27, 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.
2. On June 26, 2006, Southwest Gas Corporation (“Southwest”) filed an application for approval of its Commercial Equipment (“Commercial Equipment”) program, as required by Decision No. 68487. Decision No. 68487 required that the Company file detailed descriptions of its DSM programs within 120 days of the Commission’s February 23, 2006 Order approving rate changes effective March 1, 2006.
3. The proposed program component would be newly-implemented. High-efficiency pre-rinse spray valve distribution is part of the Commercial Equipment program, one of seven demand-side management (“DSM”) programs included in Southwest’s 2006 Arizona Demand Side Management Program Plan (“Plan”).

...

1 4. As proposed in the Plan, the Arizona Department of Water Resources (“ADWR”) will
2 distribute high-efficiency pre-rinse water spray valves to commercial customers, with Southwest
3 providing \$124,925 in financial assistance for distribution of up to 5,000 of the spray valves in its
4 service areas. (Pre-rinse spray valves are used to remove food residue from dishes.) The high-
5 efficiency spray valves will be available, at no cost, to both new and existing commercial
6 customers with kitchen facilities, including restaurants, schools, and hospitals.

7 5. Initially, Southwest intended to end distribution once the new valves became
8 mandatory, in 2008. Under Arizona law, as of January 1, 2008, new commercial pre-rinse spray
9 valves sold, offered for sale or installed must have “a flow rate equal to or less than 1.6 gallons per
10 minute.” A.R.S. 44-1375, *et seq.* In its initial data response, Southwest states that it will explore
11 continuing the program for existing commercial customers using non-high-efficiency spray valves
12 installed prior to the change in law.

13 6. Staff has recommended that Southwest continue the program into 2008 and 2009, if
14 participation is high and the program is cost-effective. Although newly installed spray valves
15 would have to meet the new standards after 2008, many of the non-energy-efficient spray valves
16 could remain in service for a number of years, and continuing the program could speed their
17 replacement. If the program is effective and ADWR does not choose to continue distribution,
18 Southwest should consider including the spray valves in its Commercial Equipment incentive
19 program, if the remainder of the Commercial Equipment program is approved.

20 7. The objective of the spray valve distribution is to increase use of high-efficiency
21 valves in the commercial sector, and create both energy and water savings. It is stipulated in
22 ADWR’s contract with the installer that the high-efficiency valves will be installed only on
23 existing hot water rinse or wash applications using water temperatures of 100° F or above, and
24 with flow rates of 2.5 gallons per minute or above; this ensures that DSM funds will be used to
25 create energy savings, as well as water savings, through replacement of high-flow valves using
26 heated water.

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1 8. The spray valve distribution is also part of the Commercial Equipment program, one
2 aim of which is to achieve market transformation of the restaurant industry, by promoting energy
3 efficiency and increasing demand for high-efficiency equipment.

4 9. According to the Plan, during its first year the Commercial Equipment program as a
5 whole, including the high-efficiency spray valves, will be advertised in restaurant trade
6 publications, on the Southwest website and on postcards distributed at food industry and culinary
7 events and at trade shows. There will also be seminars and workshops designed to train chain and
8 franchise owners on high-efficiency equipment and maintenance.

9 10. The above marketing will continue in the second and third years, with the addition of
10 educational events at the Southwest Tempe Food Service Center. Staff has recommended that
11 Southwest continue to promote high-efficiency spray valves as part of its marketing, if
12 Southwest's participation in the high-efficiency spray valve distribution is extended beyond 2007.

13 11. The high-efficiency pre-rinse water spray valve component of the Commercial
14 Equipment program proposes to fund distribution of an estimated 5,000 new high-efficiency
15 valves during 2007. Southwest estimates the actual market potential for the spray valves at
16 18,000.

17 12. The DSM portfolio, including the Commercial Equipment program, is funded through
18 the Demand Side Management ("DSM") Adjustor Mechanism paid by full-margin customer
19 classes. The budget for the high-efficiency pre-rinse water spray value component of the
20 Commercial Equipment program is \$174,000 for 2007, with a cost to the program of \$34.80 per
21 spray valve installed (if 5,000 spray valves are installed). (Under Staff's recommendation, below,
22 the cost would be \$34.10.) The spray valves are obtained by ADWR directly from the
23 manufacturer and cost \$22.50 each, plus tax, with free shipping. Southwest has included \$124,925
24 in the budget for 5,000 spray valves. The remaining \$49,075 represents a weighted allocation of
25 the estimated total overhead/marketing costs¹ for the Commercial Equipment program as a whole.

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28 ¹ Overhead costs consist of Communication, including magazine, Internet and radio advertisements; Outreach Events, including trade shows and culinary events; and Training and Education, including seminar, demonstrations and workshops.

1 13. The contract employee responsible for processing rebates will do minimal work with
2 respect to the high-efficiency spray valve component of the Commercial Equipment program. For
3 this reason, Staff has recommended that the cost of the contract employee be removed from the
4 allocation for the high-efficiency valves. This will bring the overhead costs to \$45,563; rounded
5 up to \$45,575, the budget for the first year of the high-efficiency spray valve component would be
6 \$170,500.²

7 14. Southwest is not providing ADWR with any administrative funding. Funding
8 provided by Southwest to ADWR will be used only for the purchase of additional spray heads for
9 distribution in Southwest's territory.

10 15. While marketing costs represent a large proportion of the budget, the program is new
11 and extensive marketing may aid in fostering acceptance of the high-efficiency spray valves in an
12 industry with significant barriers to adoption of energy-efficient equipment. One factor in higher
13 marketing costs is that advertising in publications geared specifically for the restaurant industry is
14 more expensive than advertising in publications for the general public. In addition, educational
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16 equipment, are necessary for reaching potential end-users of such equipment. Staff has
17 recommended that Southwest monitor the marketing in order to track its effectiveness, and that the
18 marketing be adjusted, if necessary, to maximize the benefits of spending in this area.

19 16. The high-efficiency spray valves will be distributed through the Arizona Department
20 of Water Resources.

21 17. With respect to the high-efficiency spray valve component, specifically, ADWR hired
22 SBW Consulting, Inc. to track the greater number of high-efficiency spray valve installations made
23 possible by funding from Southwest and Salt River Project programs. The consultant will track
24 water usage for each participant for a year following installation; this process will also confirm
25 that the spray valves installed under the program remain in place. Staff has recommended that
26 Southwest work with ADWR to ensure that energy savings are also tracked in the program study.

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1 18. With respect to the high-efficiency commercial appliances generally, Southwest will
2 assess the program by tracking participation, energy savings and demand reductions, along with
3 inquiries, website hits and attendance at food industry energy conservation events. In addition,
4 participants will be surveyed regarding the effectiveness of the program.

5 19. The distribution of high-efficiency pre-rinse water spray valves to locations with
6 moderate water pressure and a high level of heated-water usage has the potential to increase
7 energy efficiency and water savings for schools, other public institutions and commercial
8 enterprises.

9 20. Studies have shown that high-efficiency pre-rinse valves have experienced problems
10 with performance at either high or low water pressures, or when used on round sinks. Staff has
11 recommended that the spray valve distribution should be geared toward locations with moderate
12 water pressure and standard commercial sinks.

13 21. In addition, an SBW Consulting study done for the California Urban Water
14 Conservation Council ("CUWCC")³ has shown that distribution of high-efficiency pre-rinse spray
15 valves to groceries negatively impacted the cost-effectiveness of their installation program. This
16 was due to groceries' limited use of spray heads. Additional reduction in cost-effectiveness
17 occurred because a small percentage of spray heads claimed to have been installed were not, in
18 fact, installed. Staff has recommended that Southwest work with ADWR to ensure that
19 distribution of the spray valves be restricted to locations where spray valve usage is high, and that
20 oversight of the program include verification of installation.

21 22. The ratio of benefits to costs cited by Southwest for the Commercial Equipment
22 program as a whole is 7.35⁴, while Southwest estimates the cost-effectiveness ratio for the spray
23 valve distribution alone at 69.30. This estimate utilizes therm and kWh savings that appear high,
24 in light of the field results currently available. Moreover, research indicates that the useful life of a
25 pre-rinse spray valve may be from 1 to 10 years, with five years cited as the usual useful life span,
26 while Southwest's estimate (supplied to ADWR by the manufacturer) is seven years. Staff

27
28 ³ Impact and Process Evaluation Final Report, for California Urban Water Conservation Council, 2004-5 Pre-Rinse Spray Valve
Installation Program (Phase 2), Submitted by SBW Consulting, Inc., February 21, 2007.

⁴ A number above 1 is considered cost-effective; a number below 1 is not considered cost-effective.

1 estimates, using both life spans and more conservative savings cited by the SBW Consulting study,
 2 still indicate cost-effectiveness for the Southwest program: 6.51 for a seven-year useful life span
 3 and 4.45 for a five-year useful life span. Cost-effectiveness is potentially higher for a program
 4 targeting higher-usage participants.

5 23. Southwest's estimates of the environmental benefits are in the table below. Studies
 6 differ on the actual water savings, with estimates as high as 50,000 gallons per valve, per year
 7 (below). An estimate from an October 2006 CUWCC memo, combining data from five studies,
 8 cited more conservative estimates of between 10,000 and 45,000 gallons per year, per spray valve.⁵

9 24. ENVIRONMENTAL BENEFITS (Based on seven-year useful life span)

Annual Savings	CO2 (lbs)	NOX (lbs)	SOX (lbs)	H2O (gallons)
2007	7,764,950	1,450	36	251,972,992
2008	0	0	0	0
2009	0	0	0	0
Lifetime Savings	54,354,648	10,195	255	1,763,810,941

15
 16 25. Staff has recommended that information on the high-efficiency pre-rinse spray valve
 17 component of the Commercial Equipment program be included in the semi-annual DSM reports,
 18 and this information should include: (i) the number of participants, (ii) the amount of funding
 19 provided to ADWR, (iii) the amount spent on marketing, (iv) samples of its marketing materials,
 20 (v) the types of facilities where spray valves are being installed, and (vi) the SBW Consulting
 21 study tracking the spray valve distribution program, and any other information provided by
 22 ADWR regarding the effectiveness of the spray valve component of the Commercial Equipment
 23 program.

24 26. Currently, Southwest has a low-income weatherization program in California which is
 25 run through community action agencies. This weatherization program is the only approved energy
 26 efficiency program conducted by Southwest in another state. In past years, Southwest conducted a
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28 ⁵ Average Water Savings of PBMP Devices, to CUWCC, from David Mitchell, M.Cubed, October 16, 2006.

1 number of conservation/DSM program in Nevada, but there are no approved DSM programs in
2 Nevada at this time.

3 27. Staff has recommended approval of the high-efficiency pre-rinse spray valve
4 component of the Commercial Equipment program with the following requirements:

5 28. Staff has recommended that Southwest continue the program into 2008 and 2009, if
6 participation in the program is high and the program is cost-effective. If the program is effective
7 and ADWR does not choose to continue distribution, Southwest should consider including the
8 spray valves in its Commercial Equipment incentive program, if the remainder of the Commercial
9 Equipment program is approved.

10 29. Staff has recommended that Southwest continue to promote high-efficiency spray
11 valves as part of its marketing, if Southwest's participation in the high-efficiency spray valve
12 distribution is extended beyond 2007.

13 30. Staff has recommended that the cost of the contract employee be removed from the
14 allocation for the high-efficiency valves. This will bring the overhead costs to \$45,563; rounded
15 up to \$45,575, the budget for the first year of the high-efficiency spray valve component would be
16 \$170,500.

17 31. Staff has recommended that Southwest monitor the marketing in order to track its
18 effectiveness, and that the marketing be adjusted, if necessary, to maximize the benefits of
19 spending in this area.

20 32. Staff has recommended that Southwest work with ADWR to ensure that energy
21 savings be tracked in the program study.

22 33. Staff has recommended that spray valve distribution should be geared toward
23 locations with moderate water pressure and standard commercial sinks.

24 34. Staff has recommended that Southwest work with ADWR to ensure that distribution
25 of the spray valves be restricted to locations where spray valve usage is high, and that oversight of
26 the program include verification of installation.

27 35. Staff has recommended that information on the high-efficiency pre-rinse spray valve
28 component of the Commercial Equipment program be included in the semi-annual DSM reports,

1 and this information should include: (i) the number of participants, (ii) the amount of funding
2 provided to ADWR, (iii) the amount spent on marketing, (iv) samples of its marketing materials,
3 (v) the types of facilities where spray valves are being installed, and (vi) the SBW Consulting
4 study tracking the spray valve distribution program and any other information provided by ADWR
5 regarding the effectiveness of the spray valve component of the Commercial Equipment program.

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 June 12, 2007 concludes that it is in the public interest to approve the High-Efficiency Pre-Rinse
13 Water Spray Valve component of the Commercial Equipment program.

14 ORDER

15 IT IS THEREFORE ORDERED that the High-Efficiency Pre-Rinse Water Spray Valve
16 component of its Commercial Equipment program be and hereby is approved.

17 IT IS FURTHER ORDERED that Southwest continue the program into 2008 and 2009, if
18 participation in the program is high and the program is cost-effective. If the program is effective
19 and ADWR does not choose to continue distribution, Southwest should consider including the
20 spray valves in its Commercial Equipment incentive program, if the remainder of the Commercial
21 Equipment program is approved.

22 IT IS FURTHER ORDERED that Southwest continue to promote high-efficiency spray
23 valves as part of its marketing, if Southwest's participation in the high-efficiency spray valve
24 distribution is extended beyond 2007.

25 IT IS FURTHER ORDERED that the cost of the contract employee be removed from the
26 allocation for the high-efficiency valves. This will bring the overhead costs to \$45,563; rounded
27 up to \$45,575, the budget for the first year of the high-efficiency spray valve component would be
28 \$170,500.

1 IT IS FURTHER ORDERED that Southwest monitor the marketing in order to track its
2 effectiveness, and that the marketing be adjusted, if necessary, to maximize the benefits of
3 spending in this area.

4 IT IS FURTHER ORDERED that Southwest work with ADWR to ensure that energy
5 savings be tracked in the program study.

6 IT IS FURTHER ORDERED that spray valve distribution should be geared toward
7 locations with moderate water pressure and standard commercial sinks.

8 IT IS FURTHER ORDERED that Southwest work with ADWR to ensure that distribution
9 of the spray valves be restricted to locations where spray valve usage is high, and that oversight of
10 the program include verification of installation.

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 2 component of the Commercial Equipment program be included in the semi-annual DSM reports,
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 4 provided to ADWR, (iii) the amount spent on marketing, (iv) samples of its marketing materials,
 5 (v) the types of facilities where spray valves are being installed, and (vi) the SBW Consulting
 6 study tracking the spray valve distribution program and any other information provided by ADWR
 7 regarding the effectiveness of the spray valve component of the Commercial Equipment program.

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

9
 10 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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 13 CHAIRMAN

COMMISSIONER

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 16 COMMISSIONER

COMMISSIONER

COMMISSIONER

17 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
 18 Director of the Arizona Corporation Commission, have
 19 hereunto, set my hand and caused the official seal of this
 20 Commission to be affixed at the Capitol, in the City of
 Phoenix, this _____ day of _____, 2007.

21
 22 _____
 23 BRIAN C. McNEIL
 24 Executive Director

25 DISSENT: _____

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 27 DISSENT: _____

28 EGJ:JMK:lhm\JMA

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